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No. 944

In the

United States Court of Appeals

For the Seventh Circuit

No. 12003

HERBERT BROWNELL, JR., Attorney General of the United States, as Successor to the Alien Property Custodian,
Plaintiff-Appellee,

vs.

LA SALLE STEEL CO., a corporation,
Defendant-Appellant.

Appeal from the United States District Court for the Northern District of Illinois, Eastern Division.

Honorable
Win G. Knoch,
Judge Presiding.

APPENDIX

VINCENT O'BRIEN
RICHARD L. WATTLING
105 South LaSalle Street
Chicago, Illinois
Attorneys for Appellant

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APPENDIX.

STATEMENT REQUIRED BY RULE 16(b)

The suit below was brought July 20, 1954, in the District of Delaware and transferred to the Northern District of Illinois, Eastern Division, by order of February 4, 1955. By the complaint, the Attorney General of the United States, as successor to the Alien Property Custodian, sought to recover from the defendant, LaSalle Steel Company, a corporation, certain royalties which had allegedly accrued under a contract between an alien, Tubus A. G., and the defendant. The plaintiff claimed that the alien's rights under said contract became vested in the Alien Property Custodian by means of a vesting order made in 1944.

The defendant answered and counterclaimed March 7, 1955; whereupon, the plaintiff, on May 11, 1955, moved to strike certain affirmative defenses, and, after numerous briefs were submitted in support of and in opposition to the motion, the court, by order and memorandum of February 10, 1956, sustained the motion, after which the plaintiff, on March 8, 1956, answered the counterclaim.

On March 20, 1956, the defendant sought a clarification of the above order and memorandum, which was granted by the court in a supplemental memorandum, filed August 2, 1956, pursuant to which the order and judgment of November 19, 1956, was entered striking the defendant's answer and counterclaim and directing the defendant to turn over to the plaintiff the royalties in question.

As permitted by Appendix 17, Title 50, Trading with Enemy Act, and by Rule 73 of the Rules of Civil Procedure, the defendant filed its notice of appeal within sixty days, to-wit: January 18, 1957, which was made a supersedeas by orders of January 18, 1957.

1-4 * * *

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IN THE UNITED STATES DISTRICT COURT
For the District of Delaware

HERBERT BROWNELL, JR., Attorney General of the United States as successor to the Alien Property Custodian,
Plaintiff,
v.
LA SALLE STEEL CO.,
Defendant.
Civil Action No. 1627

COMPLAINT
(filed July 20, 1954)

The plaintiff for his complaint alleges:

1. The plaintiff is the duly appointed, acting and qualified Attorney General of the United States and brings this suit in his official capacity as Attorney General and successor to the Alien Property Custodian.

2. The defendant is a corporation incorporated under the laws of the State of Delaware, having its principal place of business in the City of Chicago, in the State of Illinois.

3. The jurisdiction of this Court is invoked under the provisions of Section 17 of the Trading with the Enemy Act, as amended (50 U.S.C., App., Sec. 17) and Title 28, United States Code, Section 1345.

4. Tubus A.G. was a business corporation organized under the laws of Switzerland with its main office in Zurich, Switzerland, and later in Glarus, Switzerland.

5. On or about December 2, 1933, the defendant entered into a written contract with the aforesaid Tubus A.G., a true copy of which agreement is annexed hereto as Exhibit A, and made a part hereof.

6. In said contract of December 2, 1933, it was stated that Tubus A.G. was the owner of certain United States patents and patent applications, as more fully set forth on page 1 of said contract.

7. By the terms of said contract of December 2, 1933, Tubus A.G. granted to the defendant a non-exclusive license to make, have made, and use, but not to sell, machines, apparatus and devices embodying the inventions covered by the patents and applications aforesaid and to practice the processes and methods thereof, including the right to employ said machines, apparatus, devices, processes and methods in the manufacture of solid and tubular metal shapes, *provided* that the license thus granted was to be exclusive as to extruded products of solid cross-section other than rounds, squares, flats and hexagons, and where exclusive, the defendant was given the right to license others.

8. By the terms of said contract of December 2, 1933, the defendant agreed to pay to Tubus A.G. certain royalties on the sale of all products produced in accordance with the practice of the inventions, or any of them, covered by said contract, as more fully set out in paragraph 4 of said contract, including 50,000 Swiss Francs (or $13,750, at the then rate of exchange), as advance royalties to be credited against initial production, and $1.25 per ton on solid shapes of all kinds (other than rounds, squares, flats and hexagons). The contract further provides that "When the 'Composite Price of finished steel', computed in the manner set forth on page 85 of the Iron Age for January 5, 1933 exceeds $2.546 per hundred weight, the above royalties shall be increased in proportion to the excess."

9. Pursuant to said contract of December 2, 1933, on January 1, 1948 the defendant granted a sublicense to Thompson Products, Inc., a corporation organized under the laws of the State of Ohio, having its principal place of business located in the City of Cleveland, in the State of Ohio.

10. Pursuant to said contract of December 2, 1933, on February 1, 1948 the defendant granted a sublicense to Eaton Manufacturing Company, a corporation organized under the laws of the State of Ohio, having its principal place of business in the City of Cleveland, in the State of Ohio.

11. By Vesting Order No. 3369 executed on March 29, 1944 (9 Fed. Reg. 3983, April 14, 1944), a certified copy of which is annexed hereto as Exhibit B, and made a part hereof, James E. Markham, the then Alien Property Custodian of the United States, found that all interest and rights (including all royalties and other monies payable or held with respect to such interests and rights and all damages for breach thereof, together with the right to sue therefor) created in Tubus A.G. by virtue of the said
7 contract of December 2, 1933, is property of Fritz Singer and the heirs of Neumeyer, and that Fritz Singer and the heirs of Neumeyer are residents of Germany and are nationals of a foreign country (Germany).

12. By said Vesting Order No. 3369, the then Alien Property Custodian of the United States, pursuant to the Trading with the Enemy Act, as amended (50 U.S.C., App., Secs. 1 et seq.) duly vested in himself for the benefit of the United States, among other things, all interests and rights (including all royalties and other monies payable or held with respect to such interests and rights and all damages for breach thereof, together with the right to sue therefor) created in Tubus A.G. by virtue of the said contract of December 2, 1933 (including all modifications thereof or supplements thereto, if any), and all right, title and interest, including all accrued royalties, in and to the patents referred to in said contract of December 3, 1933.

13. By Executive Order No. 9788 (11 Fed. Reg. 11981, October 14, 1946), the Attorney General of the United

States succeeded to all the powers, functions and duties of the Alien Property Custodian and to all of the property and interests vested by the Alien Property Custodian, including the property and interests vested by said Vesting Order No. 3369.

14. The plaintiff is informed and believes that Tubus A.G. has performed all the conditions and obligations to be performed on its part under said contract of December 2, 1933.

15. On April 17, 1950, the plaintiff notified the defendant that the said contract of December 2, 1933 was terminated as of January 30, 1950.

16. From December 2, 1933, to January 30, 1950, the defendant had the use, benefit and enjoyment of the licenses and rights, privileges and immunities granted to it by said contract of December 2, 1933.

17. On January 30, 1950, the defendant reported to the plaintiff that some 9,665.2 tons of extruded valves and tappets had been produced under the sublicense agreements referred to in paragraphs 9 and 10 of this complaint, and the defendant calculated that royalties due amounted to approximately $12,081.59, which sum the defendant applied to the advance payment of 50,000 Swiss francs, or $13,750, allegedly paid by defendant to Tubus A.G. at the time of entering into the aforementioned contract of December 2, 1933.

8 18. The plaintiff is informed and believes that 21,840.936 tons of extruded valves and tappets have been produced up to January 30, 1950 under the aforementioned contract of December 2, 1933 and under the sublicenses issued thereunder, and that therefore royalties are owing to the plaintiff by the defendant under the terms of the aforesaid contract of December 2, 1933, in the amount of $21,377.29, exclusive of interest. This amount is composed of $27,301.17, being the royalties on 21,840.936 tons at $1.25

per ton, plus additional royalties of $7,826.12 due to the adjustment of the royalty rate in accordance with the composite price of finished steel calculated in the manner agreed upon in paragraph 4 of the said contract of December 2, 1933, less advance royalties of $13,750 paid Tubus A.G. by the defendant in 1933.

19. After earlier demands upon the defendant for some of the royalties due under said contract of December 2, 1933, on February 21, 1952, the plaintiff notified the defendant by letter that the defendant, under the terms of said contract of December 2, 1933, owed the plaintiff royalties in the amount of $21,377.29, and demanded payment of this sum.

20. The defendant has failed to pay and still refuses to pay the royalties due under said contract of December 2, 1933.

Wherefore, the plaintiff prays judgment in the sum of $21,377.29, together with interest thereon, and with costs and disbursements of this action, and for such other and further relief as is just and equitable.

Dated July 20, 1954.

9 EXHIBIT A

LICENSE AGREEMENT

This Agreement entered into this 2nd day of December, 1933, by and between Tubus A.G., of Zurich, Switzerland, party of the first part, hereinafter referred to as licensor, and La Salle Steel Company, of Chicago, Illinois, U.S.A., a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, U.S.A., having its principal place of business at the Palmolive Building, Chicago, Illinois, party of the second part, hereinafter referred to as licensee, Witnesseth:

That Whereas the licensor is the owner of the following Letters Patent of the United States and Canada and pending applications for Letters Patent:

U.S.A.	1,773,464	Liebergeld et al	Aug. 19, 1930
	1,802,785	Singer	Apr. 28, 1931
	1,825,017	Singer	Sep. 29, 1931
	1,836,821	Singer	Dec. 15, 1931
	1,836,763	Liebergeld	Dec. 15, 1931
	1,839,421	Singer	Jan. 5, 1932
	1,840,472	Singer	Jan. 12, 1932
	1,842,695	Singer	Jan. 26, 1932
	1,878,722	Singer	Sep. 20, 1932
	1,892,789	Singer	Jan. 3, 1933
	1,912,015	Singer	May 30, 1933
Canada	288,411	Singer	Apr. 2, 1929

Application Serial No. 659,117
Application Serial No. 676,617 (Pat. No. 1,966,953)
Application Serial No. 660,043
Application Serial No. 80,338 (Pat. No. 1,955,243)

which said patents and applications relate to machines, apparatus and processes for the extrusion of metal, and

Whereas, the licensee is desirous of securing the right to practise the inventions disclosed in the said patents and applications.

Now Therefore, for and in consideration of the sum of 100 RM., each to the other in hand paid and other good and valuable consideration receipt of which is hereby acknowledged, and the mutual performance of the undertakings herein, it is agreed by and between the parties hereto as follows:

10 1.) Grant. The licensor hereby grants to the licensee, and the latter hereby accepts, the non-exclusive right and license to make, have made, and use, but

not to sell, machines, apparatus and devices embodying the inventions covered by the patents and applications aforesaid and to practise the processes and methods thereof to the fullest extent, including the right to employ said machines, apparatus, devices, processes and methods in the manufacture of solid and tubular metal shapes provided that the license and right thus granted shall be, and is, exclusive as to extruded products of solid cross-section other than rounds, squares, flats and hexagons, and where exclusive gives the licensee the right to license others.

2.) Term. The term of this license shall extend throughout the term of any and all Letters Patent coming under the license agreement.

3.) Territory. The license shall extend to the United States, its territories and Canada.

4.) Royalties. The licensee agrees to pay to the licensor the following royalties on the sale of all products produced in accordance with the practice of the inventions, or any of them, covered by this agreement.

A). 50,000 Swiss francs, as advance royalties, to be paid upon signing this agreement, such royalties to be credited against initial production.

B). Common tubes, i.e., iron and steel tubes containing less than 0.75% of alloy material, and nonferrous tubes, two dollars ($2.00 U.S.A.) per ton.

C). Steel tubes containing from .75 to 5% of alloy material, four dollars ($4.00 U.S.A.) per ton.

D). Steel tubes containing over 5% of alloy material, eight dollars ($8.00 U.S.A.) per ton.

E). Solid shapes of all kinds (other than rounds, squares, flats and hexagons) one dollar and twenty-five cents ($1.25 U.S.A.) per ton.

F). Solid rounds, squares, flats and hexagons, one dollar ($1.00 U.S.A.) per ton.

11 When the "Composite Price of finished steel", computed in the manner set forth on page 85 of the Iron Age for January 5, 1933 exceeds $2.546 per hundred weight, the above royalties shall be increased in proportion to the excess.

For the purposes of this agreement a ton shall comprise 2000 pounds of 16 ounces each; products shall be considered "sold" when they have been delivered or shipped, provided that no royalties shall be paid on products returned for credit as defective, and "alloy material" shall not include those common ingredients of iron and steel such as carbon, manganese below 2%, silicon below .50% in steel and in any amount in wrought iron, phosphorous, sulphur and iron.

5). Down Payment. It is agreed that the licensee shall be permitted at any time during the life of this agreement to organize additional companies to undertake the manufacture of extruded products under and in accordance with the terms of this license and in the event any such company is organized it shall be obliged to pay the royalties set forth in paragraph 4 above but shall not be obliged to make any down payment as advance royalties or otherwise, it being understood that the instant payment of 50,000 Swiss francs shall cover all future operations of the licensee.

6.) Mode of Payment. The licensee will make the royalty payments provided for herein in quarterly periods, the respective quarters ending upon the first days of January, April, July and October, and the payments for the preceding quarter are to be made to the ..... Bank for the account of the licensor on or before the 15th days of January, April, July and October respectively; on such days the licensee is also to furnish with such payments to such Bank a certified statement of the sales of all products which form the subject-matter of this

agreement, made during the next preceding quarter, and annually will furnish a similar statement audited by a firm of recognised and competent accountants.

12 7.) Access to Books. The licensee agrees to keep accurate books of account showing the manufacture and sale of the licensed products, and the licensor is hereby given the right of access, through a certified public accountant, to those books of the licensee involved in these trans-actions, for the purpose of verifying said statements as to royalty payments, said access to be at reasonable business hours.

8.) Delinquency. In the event that the licensee shall be sixty (60) days in arrears in the payment of royalties, then the licensor has the right to cancel this agreement, upon giving the licensee thirty (30) days written notice by registered mail, delivered to the licensee, the cancellation of the agreement to be effective at the end of the thirty (30) day period unless the licensee shall have cured the disability within that time.

9.) Cancellation. The licensee hereby reserves the right to cancel this agreement and to be relieved from further obligations thereunder should the important claims in the licensed patent, (or patents which ultimately issue upon the patent applications aforesaid) be declared invalid by a court of competent jurisdiction.

10.) Improvements. Any improvements or inventions relating to the art of extruding metal that may come under the control of, or be made, or acquired by licensor during the life of this agreement shall fall within the terms of this agreement and shall be available to the licensee without the payment of any royalties in addition to those specified in paragraph 4, above.

11.) Engineering Data. The licensor and licensee agree to communicate immediately and completely each to the other all engineering data and information pertaining to

the extrusion of metals that may now be in its possession or that it may hereafter acquire so that the licensee will be in at least as favorable a position for the manufacture of extruded metal products as the party of the first part or any of its licensees either in the United States or in any other country; the licensor will furnish, at the
13 request and at the expense of the licensee, an engineer skilled and competent in the extrusion of ferrous metals who will visit the plant at Hammond, Indiana, U.S.A., of the licensee, and there devote his services to the successful introduction on a commercial scale of the extrusion methods and inventions covered by this agreement. The licensor further agrees that Dr. Fritz Singer will, at the request and at the expense of the licensee, visit the latter to assist it in successfully manufacturing under the license.

12.) Warranty. The licensor hereby warrants that the licensor has full and complete title to the patents and applications covered by this agreement and that there are no other outstanding licenses based upon such patents or applications.

13.) Importation into U.S.A. The licensor agrees that it will insert in any and all licenses it grants in countries other than the United States and Canada a clause prohibiting the exportation to the United States and Canada of any and all products produced in accordance with any of the patented or licensed machines, apparatus or processes which products would be sold in competition with the licensee, and the licensee agrees not to export any such products to foreign countries in which Tuous has granted licenses to practise the inventions covered herein.

14.) Litigation. The licensor agrees to prosecute infringers of the important claims of the patents licensed under only in those instances in which such infringers are competitors of the licensee provided that the obligation of

the licensor under this clause shall not become effective until the first extrusion press operated under this license has been in operation for a period of six months. When any infringement suit is commenced against the licensee, the payment of royalties on products extruded thereafter shall be suspended and during the pendency of the litigation all accumulated royalties shall be paid into the ..... Bank, by it to be held in escrow awaiting the outcome of the litigation. If the litiga-
14 tion should terminate by an injunction issuing against the licensee, the latter shall be entitled to recover back said royalties in escrow, otherwise they shall be paid to the licensor. If the injunction extends to only a part of the operations carried on by the licensee under this license, the latter shall have the right of election between (a) cancelling the license, in which event the royalties in escrow shall be recovered by the licensee and (b) continuing under the license, with respect to the unenjoined operations, in which event the royalties will be paid to the licensor. In the event the licensee continues under the license, the royalty rates will be adjusted, according to the amount of patent protection remaining. If the parties cannot agree on the new rates, the matter shall be submitted to arbitration in the following manner: Each party shall select one arbitrator, the two so selected shall select a third, and a decision of a majority shall bind the licensor and licensee. In any litigation, either aggressive or defensive, the licensor will keep the licensee fully informed of the progress being made and the licensee shall have the right to be represented therein, at its own expense, by counsel who may act in an advisory capacity.

15.) Five Per Cent Clause. Licensor agrees, in return for the expense incurred and the effort exerted by the licensee in introducing the invention into the licensed territory, that the licensor will pay to the licensee five

per cent (5%) of any and all monies received by the licensor from any source, as income from the patents and applications, or any of them, covered by this agreement. The licensor agrees to make such percentage payments to the ..... Bank on the same dates that royalty payments are made by the licensee as provided in paragraph ..... above, and both the licensee and the licensor are given the right of set off.

16.) Most Favored License Clause. The licensor agrees that the licensee shall always have the benefit of the lowest royalty rates charged any other licensee under the patents and/or applications aforesaid.

17.) Who Is Bound. This agreement shall be binding respectively upon the executors, administrators, successors, legal representatives and assigns of the parties hereto.

18.) Law Governing. All questions of law or equity arising out of or in connection with this license shall be governed by the laws of the United States of America and the State of Illinois, U.S.A.

Form APC-42

UNITED STATES OF AMERICA
OFFICE OF ALIEN PROPERTY CUSTODIAN

Vesting Order Number 3369

Re: Interests of Fritz Singer and the heirs of Neumeyer in patents and in an agreement between Fritz Singer and Aluminum Company of America

Under the authority of the Trading with the enemy Act, as amended, and Executive Order No. 9095, as amended, and pursuant to law, the undersigned, after investigation, finding:

1. That Fritz Singer and the heirs of Neumeyer are residents of Germany and are nationals of a foreign country (Germany);

2. That the property identified in subparagraph 3 hereof is property of Fritz Singer and the heirs of Neumeyer;

3. That the property described as follows:

   Property identified in Exhibit A attached hereto and made a part hereof,

   is property of, or is property payable or held with respect to patents or rights related thereto in which interests are held by, and such property itself constitutes interests held therein by, nationals of a foreign country (Germany);

And having made all determinations and taken all action required by law, including appropriate consultation and certification, and deeming it necessary in the national interest,

HEREBY VESTS in the Alien Property Custodian the property described above, to be held, used, administered, liquidated, sold or otherwise dealt with in the interest of and for the benefit of the United States.

Such property and any or all of the proceeds thereof shall be held in an appropriate account or accounts, pending further determination of the Alien Property Custodian. This Order shall not be deemed to limit the power of the Alien Property Custodian to return such property or the proceeds thereof in whole or in part, nor shall it be deemed to indicate that compensation will not be paid in lieu thereof, if and when it should be determined to take any one or all of such actions.

Any person, except a national of a designated enemy country, asserting any claim arising as a result of this Order may, within one year from the date hereof, or within such further time as may be allowed, file with the Alien Property Custodian on Form APC-1 a notice of claim, together with a request for a hearing thereon. Nothing herein contained shall be deemed to constitute an admission of the existence, validity or right to allowance of any such claim.

The terms "national" and "designated enemy country" as used herein shall have the meanings prescribed in Section 10 of Executive Order No. 9095, as amended.

Executed at Washington, D. C. on March 29, 1944.

(Official Seal)

(Signed) James E. Markham
James E. Markham
Alien Property Custodian

[F.R.Doc. 44-5306; Filed, April 13, 1944; 10:34 a.m.]
[9 Fed. Reg. 3983 (April 14, 1944)]

EXHIBIT A

(a) All right, title and interest, including all accrued royalties and all damages and profits recoverable at law or in equity from any person, firm, corporation or government for past infringement thereof, in and to the patents identified in Schedule A attached hereto and made a part hereof,

(b) All interests and rights (including all royalties and other monies payable or held with respect to such interests and rights and all damages for breach of the agreement hereinafter described, together with the right to sue therefor) created in Tubus A. G. by virtue of an agreement dated December 2, 1933 (including all modifications thereof or supplements thereto, if any) by and between Tubus A. G. and LaSalle Steel Company, relating, among others, to patent number 1,912,015,

(c) All interests and rights (including all royalties and other monies payable or held with respect to such interests and rights and all damages for breach of the agreement hereinafter described, together with the right to sue therefor) created in Kelly Steel Corporation by virtue of an agreement dated February 24, 1938 (including all modifications thereof or supplements thereto, if any) by and between Kelly Steel Corporation and LaSalle Steel Company, relating, among others, to patent number 2,102,099,

(d) An undivided two-thirds interest remaining in Fritz Singer and the heirs of Neumeyer, after the assignment to Richard Spencer of an undivided one-third interest therein, in and to the patents identified in Schedule B attached hereto and made a part hereof, including all accrued royalties and all damages and profits recoverable at law or in equity from any person, firm, corporation or government for past infringement thereof to which the owners of such interest are entitled.

(e) All interests and rights (including all royalties and other monies payable or held with respect to such interests and rights and all damages for breach of the agreement hereinafter described, together with the right to sue therefor) created in Fritz Singer and the heirs of Neumeyer, and each of them, by virtue of an agreement dated October 23, 1940 (including all modifications thereof or supplements thereto, including, but without limitation, extensions dated October 2, 1942 and October, 1943 and a letter dated December 21, 1943, from Aluminum Company of America to Richard Spencer) by and between Fritz Singer and Aluminum Company of America, relating, among others, to patent No. 1,982,544.

Exhibit B

IU

SCHEDULE A

PATENT NUMBER	DATE	INVENTOR	TITLE
1,714,483	5-21-29	Franz Schneider and Fritz Singer	Headlight for Small-Sized Motor Cars and Motor-Cycles
1,773,464	8-19-30	Alfred Liebergeld and Fritz Singer	Press for Extruding Seamless Tubes from Unbored Billets of Metals and Alloys
1,802,786	4-28-31	Fritz Singer	Method of Extruding Long Seamless Tubing
1,802,843	4-28-31	Fritz Singer	Process for Producing Closed-End Tubular Bodies
1,825,017	9-29-31	Fritz Singer	Extrusion Press
1,836,763	12-15-31	Alfred Liebergeld	Extrusion Press
1,836,821	12-15-31	Fritz Singer	Heat and Pressure Resisting Tools
1,839,421	1- 5-32	Fritz Singer	Extrusion Press
1,840,472	1-12-32	Fritz Singer	Matrix Die for Extruding Solid and Hollow Articles
1,842,695	1-26-32	Fritz Singer	Apparatus for Removing Extrusion Residue
1,878,722	9-20-32	Fritz Singer	Method of Extrusion
Re.19,474	2-19-35	Fritz Singer	Hot Extrusion Method
1,912,015	5-30-33	Fritz Singer	Method of Treating Billets Prior to Extrusion
1,925,823	9- 5-33	Fritz Singer	Manufacture of Casings

IU

SCHEDULE A

PATENT NUMBER	DATE	INVENTOR	TITLE
1,955,243	4-17-34	Alfred Liebergeld and Fritz Singer	Method of Producing Seamless Tubes by Extrusion
1,960,832	5-29-34	Fritz Singer	Method of Producing Wrought Iron
1,966,953	7-17-34	Alfred Liebergeld	Extrusion Press
1,974,303	12-18-34	Fritz Singer and Alfred Liebergeld	Extrusion Press
1,989,948	2- 5-35	Fritz Singer	Extrusion Apparatus
2,006,080	6-25-35	Adolf Nefing	Extrusion Press
2,023,776	12-10-35	Adolf Nefing	Production of Seamless Tubes and Other Elongate Articles
2,036,182	3-31-36	Fritz Singer	Extrusion Method

IU

SCHEDULE B

PATENT NUMBER	DATE	INVENTOR	TITLE
1,982,544	11-27-34	Fritz Singer	Method and Apparatus for Elongating Metal Article
2,102,099	12-14-37	Fritz Singer	Enlarging the Diameter of Hollow Metal Article
2,105,015	1-11-38	Fritz Singer	Mechanically Working Metal Article
2,110,965	3-15-38	Fritz Singer	Reducing the Diameter of Hollow Metal Articles
2,116,964	5-10-38	Fritz Singer	Mechanically Working Metal Article
2,153,839	4-11-39	Alfred Liebergeld	Metalworking
2,218,459	10-15-40	Fritz Singer	Manufacture of Articles from Light Metal Alloys
2,218,460	10-15-40	Fritz Singer and Alfred Liebergeld	Stretching Machine
2,231,228	2-11-41	Fritz Singer	Cooling and Lubricating Means for the Working Metals

OFFICE OF ALIEN PROPERTY
DEPARTMENT OF JUSTICE

Amendment to Vesting Order 3369

Re: Interests of Fritz Singer and the heirs of Neumeyer in patents and in an agreement between Fritz Singer and Aluminum Company of America

Vesting Order 3369, dated March 29, 1944, is hereby amended as follows and not otherwise:

By deleting subparagraph 3-d thereof, set forth in Exhibit A, attached thereto and by reference made a part thereof, and substituting therefor the following:

"d. All right, title and interest in and to the patents identified in Schedule A attached hereto and by reference made a part hereof, excepting, however, such right, title and interest as exists in Richard Spencer for his lifetime in and to an undivided one-third (1/3) thereof and excepting such right as exists in the heirs of said Richard Spencer to one-third (1/3) of all royalties which may accrue under licenses issued with respect to said patents and in force and effect on Richard Spencer's death, but including two-thirds (2/3) of all accrued royalties and two-thirds (2/3) of all damages and profits recoverable at law or in equity from any person, firm, corporation or government for past infringement of said patents,".

All other provisions of said Vesting Order 3369 and all actions taken by or on behalf of the Alien Property Custodian or the Attorney General of the United States in reliance thereon, pursuant thereto and under the authority thereof are hereby ratified and confirmed.

(40 Stat. 411, 50 U.S.C. App. 1; 55 Stat. 839, 50 U.S.C. App. Sup. 616; Pub. Law 322, 79th Cong., 60 Stat. 50; Pub. Law 671, 79th Cong., 60 Stat. 925; E.O. 9193, July 6, 1942, 7 F.R. 5205, 3 CFR, Cum. Supp.; E.O. 9567, June 8, 1945, 10 F.R. 6917, 3 CFR, 1945 Supp.; E.O. 9788, Oct. 14, 1946, 11 F.R. 11981)

Executed at Washington, D. C., on [illegible] 8

For the Attorney General:

[illegible]
David C. Brackett
Assistant Attorney General
Director, Office of Alien Property

(OFFICIAL SEAL)

I hereby certify that the within is a true and correct copy of the original paper on file in this office.
For the Attorney General:
Dallas S. Townsend, Assistant Attorney General
Director, Office of Alien Property
By Leola M. Stanton
Assistant to the Records Officer

17

OFFICE OF ALIEN PROPERTY
DEPARTMENT OF JUSTICE

Amendment to Vesting Order 3369, as amended

Re: Interests of Fritz Singer and the heirs of Neumeyer in patents and in an agreement between Fritz Singer and Aluminum Company of America

Vesting Order 3369, dated March 29, 1944, as amended, is hereby further amended as follows and not otherwise:

By deleting from subparagraph 3-d thereof, as amended, the word and letter "Schedule A" and substituting therefor the word and letter "Schedule B."

All other provisions of said Vesting Order 3369, as amended, and all actions taken by or on behalf of the Alien Property Custodian or the Attorney General of the United States in reliance thereon, pursuant thereto and under the authority thereof are hereby ratified and confirmed.

(40 Stat. 411, 50 U.S.C. App. 1; 55 Stat. 839, 50 U.S.C. App. Sup. 616; Pub. Law 322, 79th Cong., 60 Stat. 50; Pub. Law 617, 79th Cong., 60 Stat. 925; E.O. 9193, July 6, 1942, 7 F.R. 5205, 3 CFR, Cum. Supp.; E.O. 9567, June 8, 1945, 10 F.R. 6917, 3 CFR, 1945 Supp.; E.O. 9788, Oct. 14, 1946, 11 F.R. 11981)

Executed at Washington, D. C., on August 3, 1949

For the Attorney General:

(OFFICIAL SEAL)

(Signed) David L. Bazelon

David L. Bazelon
Assistant Attorney General
Director, Office of Alien Property

I hereby certify that the within is a true and correct copy of the original paper on file in this office.
For the Attorney General:
Dallas S. Townsend, Assistant Attorney General
Director, Office of Alien Property

By Gayle M. Blanton
Assistant to the Records Officer

3758-48

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19-27 • • •

28

In The District Court Of The United States

* * (Caption—No. 55 C 263) * *

ANSWER AND COUNTERCLAIM OF DEFENDANT.
(Filed Mar. 7, 1955)

The defendant, La Salle Steel Co., a corporation, for answer to the complaint in the above entitled cause, says:

1. It is without sufficient information or knowledge to enable it to admit or deny the averments contained in Paragraph (1) of the complaint, and it, therefore, neither admits nor denies said averments.

2. It admits the averments contained in Paragraph (2) of the complaint.

3. It admits that the plaintiff seeks to maintain its action under the statutes mentioned in Paragraph (3) of the complaint, but it denies that the plaintiff has any claim against the defendant cognizable under those statutes.

4. Answering Paragraph (4) of the complaint, it admits the averments that Tubus A. G. had an office first in Zurich, and then in Glarus, Switzerland, but it is without sufficient information or knowledge to enable it to admit or to deny the averments that Tubus A. G. was
29 organized under the laws of Switzerland or that either or both of such offices was the main office at any time of Tubus A. G. and it, therefore, neither admits nor denies said averments.

5-8. It admits the averments contained in paragraphs (5), (6), (7) and (8) of the complaint.

9. It admits the averments contained in paragraph (9) of the complaint, except the legal conclusion that the sublicense referred to in that paragraph was granted pursuant to the contract of December 2, 1933 between the defendant and Tubus A. G.

10. It admits the averments contained in paragraph (10) of the complaint, except the legal conclusion that the sublicense was granted pursuant to the contract of December 2, 1933 between the defendant and Tubus A. G.

11. Answering paragraph (11) of the complaint, it admits that there appears, on pages 3983 and 3984 of Volume 9 of the Federal Register, printed material identical, in words and figures, to that set forth on Exhibit B of the complaint. It is without sufficient information or knowledge to enable it to admit or deny the other averments made in paragraph (11) of the complaint, and it, therefore, neither admits nor denies said averments.

12. It is without sufficient information or knowledge to enable it to admit or deny the factual averments contained in paragraph (12) of the complaint, and it, therefore, neither admits nor denies said averments.

13. Answering Paragraph (13) of the complaint, it admits that there appears, on page 11981 of Volume 11 of the Federal Register, what purports to be an Executive Order terminating the Office of Alien Property Custodian and transferring the functions of that office to the Attorney General. It is without sufficient information or knowledge to enable it to admit or deny the other averments made in Paragraph (13) of the complaint, and it, therefore, neither admits nor denies said averments.

14. It denies the averments contained in Paragraph (14) of the complaint.

15. It admits the averments contained in Paragraph (15) of the complaint.

16. Answering Paragraph (16) of the complaint, it admits that it had the use, benefit and enjoyment of the licenses, rights, privileges and immunities granted to it by the said contract of December 2, 1933 during the period December 2, 1933 to November 27, 1945. It denies that it had, subsequent to November 27, 1945, the use,

benefit and enjoyment of the licenses, rights, privileges and immunities granted to it by the said contract of December 2, 1933.

17. It admits the averments contained in Paragraph (17) of the complaint.

18. Answering Paragraph (18) of the Complaint, it denies that it produced extruded valves and tappets, or any other extruded metal product, under the said contract of December 2, 1933. It is without sufficient
31 information or knowledge to enable it to admit or deny the averments in Paragraph (18) of the complaint as to the production of extruded valves and tappets by its sublicensees during the period December 2, 1933 to January 30, 1945, and it, therefore, neither admits nor denies said averments. It neither admits nor denies the legal conclusion that sublicenses granted by it for the production of extruded valves and tappets were issued under or pursuant to the said contract of December 2, 1933. It denies that any royalties are owing to the plaintiff from the defendant under the terms of the said contract of December 2, 1933.

19. It admits the averments contained in paragraph (19) of the complaint, but denies that any royalties are owing to the plaintiff from the defendant under the said contract of December 2, 1933.

20. Answering Paragraph (20) of the complaint, it denies that any royalties are due to the plaintiff under the said contract of December 2, 1933.

FIRST AFFIRMATIVE DEFENSE.

Further answering the complaint herein, and for a first affirmative defense thereto, the defendant, La Salle Steel Company, says:

21. That the said contract of December 2, 1933 upon which this action is based, and particularly the section numbered 13 thereof, is illegal, void and unenforceable,

for the reason that the said contract and particularly Section 13 thereof, is contrary to the public policy of
32 the United States and the statutes of the United States in such cases made and provided, and particularly to the Sherman Act, Sections 1 and 2 (15 U.S.C. §§ 1, 2), in that:

(a). The patents covered by the said contract of December 2, 1933 related to machines, apparatus and processes for the extrusion of metal. Such patents did not relate to, or cover, the objects or products extruded by such machines, apparatus and processes. Such patents did not preclude the importation into, and use or sale within, the United States of products or objects extruded outside the United States by such machines, apparatus and processes.

(b). Tubus A. G. owned other patents, granted by various foreign countries, which patents related to the same machines, apparatus and processes as did the patents covered by the said contract of December 2, 1933. Such foreign patents did not preclude the exportation from the United States, to the foreign nations wherein such patents had been issued, of products or objects extruded within the United States by such machines, apparatus and processes.

(c). Section 13 of the said contract of December 2, 1933 provided that the defendant would not export any product made in accordance with the licensed machines, apparatus or processes to any country in which the licensor had granted licenses to practice the inventions covered by the said contract, and the licensor promised to insert in any and all licenses granted by it in countries other than the United
33 States a clause prohibiting the exportation of such products to the United States.

22. That the purpose and effect of Section 13 of the said contract of December 2, 1933 was to restrain the com-

merce of the United States and to give the defendant a monopoly, within the United States, of extruded metal products produced in accordance with the machines, apparatus and processes covered by that agreement, notwithstanding that such products were not themselves protected by the patents licensed to the defendant under the said contract.

SECOND AFFIRMATIVE DEFENSE.

Further answering the complaint herein, and for a second affirmative defense thereto, the defendant, La-Salle Steel Company says:

23. The defendant produced neither extruded valves and tappets, nor any other extruded metal product, under the said contract of December 2, 1933. Sublicensees of the defendant produced extruded valves and tappets under United States Reissue Patent No. 19,474, a reissue of United States Patent No. 1,892,789. No sublicensee of the defendant produced extruded valves and tappets, or any other extruded metal product, under any patent covered by the said contract other than the said Reissue Patent No. 19,474.

24. The said Reissue Patent No. 19,474 is invalid for the following reasons:

(a) Because the patentee, one Fritz Singer, was not the original and first inventor or discoverer of any material or substantial part of the subject matter of said patent.

34 (b) Because the subject matter set forth in the said patent, insofar as the same may have been original with the said Singer, was not sufficiently useful to warrant the issuance of a patent thereon.

(c) Because the subject matter of said patent, prior to the alleged invention or discovery thereof by said Singer, was well known and used in the United States by those engaged in the extrusion of metal products.

(d) Because the State of the art at the time of the alleged invention of the subject matter of said patent was such that in view thereof, the development of said subject matter required no more than the normal skill expected of persons engaged in the art to which said alleged invention relates.

Wherefore, the defendant asks that the complaint herein be dismissed.

COUNTERCLAIM

COUNT I

For a separate claim against the plaintiff, the defendant, La Salle Steel Company, says:

1. That during the year 1945, Thompson Products, Inc., a corporation organized under the laws of the State of Ohio, infringed United States Reissue Patent No. 19,474, one of the patents covered by the said contract of December 2, 1933, by manufacturing and selling extruded valves and tappets produced in accordance with the methods and processes described in said patent.

2. That on or about November 6, 1945, defendant in writing requested the then Alien Property Custodian, plaintiff's predecessor in interest, to bring suit against the said Thompson Products, Inc., for infringement of the said United States Reissue Patent No. 19,474.

3. That on or about November 27, 1945, the then Alien Property Custodian, through his General Counsel, sent to the defendant a letter stating that he refused to bring such a suit and advising the defendant that should the defendant itself commence such an action, he would intervene in the said suit for the purpose of contesting the validity of the said contract of December 2, 1933 and of the license granted to the defendant under that contract. That a true and correct copy of said letter is hereto attached, marked Exhibit A and by reference made a part hereof.

4. That this refusal of the Alien Property Custodian to bring suit against the said Thompson Products, Inc. for infringement of the said Patent constituted a breach, by the said Custodian, of Section 14 of the said contract of December 2, 1933. That by reason of such breach, the defendant has been damaged in the amount of Thirty Thousand Dollars ($30,000).

Wherefore, defendant demands that there be set off against such sum, if any, as the plaintiff may be found entitled to recover from it in this action the sum of Thirty Thousand Dollars ($30,000).

36 COUNT II

For a separate claim against the plaintiff, the defendant, La Salle Steel Company, says:

5. That defendant is entitled to receive, under Section 15 of the said contract of December 2, 1933, five per cent (5%) of any and all monies received by the licensor, from any source, as royalties for the use of the patents, and patent applications, covered by the said contract.

6. That on or about December 2, 1933 plaintiff's predecessor in interest, the then licensor under the said contract, received Thirteen Thousand Seven Hundred Fifty Dollars ($13,750) in advance royalties for use of such patents and patent applications.

7. That plaintiff, as licensor under the said contract owes to the defendant five per cent (5%) of said sum of Thirteen Thousand Seven Hundred Fifty Dollars ($13,750.00) or the sum of Six Hundred Seventy-Five Dollars ($675.00), together with five per cent (5%) of such sum, if any, as the plaintiff may recover from the defendant in this proceeding as royalties for the use of the said patents and patent applications.

Wherefore, defendant demands that there be set off against such sum, if any, as the plaintiff may be

found entitled to recover from it in this action, the sum of Six Hundred Seventy-Five Dollars ($675.00) together with Five Per Cent (5%) of the sum, if any, which the plaintiff is found to be entitled to recover as royalties under the said contract of December 2, 1933.

Dated: March 4, 1955.

/s/ Vincent O'Brien
Vincent O'Brien
Attorney for Defendant
La Salle Steel Company

Of Counsel:
Defrees, Fiske, O'Brien & Thomson
105 S. La Salle
Chicago 3, Ill.
FR 2-4000

Received a copy of the foregoing Answer and Counterclaim this 7th day of March, 1955.

R. Tieken
United States Attorney

EXHIBIT A

Office Of
(Seal) Alien Property Custodian
Washington 25

Nov. 27, 1945

In replying, please refer to: JGW:aer

Richard Spencer, Esq.
Spencer, Marzall, Johnston & Cook
135 South LaSalle Street
Chicago, Illinois

Dear Mr. Spencer:

As I informed you by letter of November 7, 1945, the proposed complaint that you forwarded to me was sub-

mitted to the Department of Justice. Please be advised that the Department of Justice has informed me that the Antitrust Division would object to the voluntary appearance of the Custodian in the proposed infringement suit by LaSalle Steel Company as a nominal co-plaintiff, that the Antitrust Division is of the opinion that the agreement of December 2, 1933 between LaSalle Steel Company and Tubus, A. G., pursuant to which LaSalle claims an exclusive license under U. S. reissue patent No. 19474 is in violation of the antitrust law and is illegal thereunder.

The Department further advises that it is prepared to represent the Custodian, should LaSalle institute an infringement action for the purpose of raising the issue of illegality.

In light of the foregoing, I am authorized to advise you that this Office must decline to be joined as a nominal plaintiff in the proposed infringement suit, and that it will intervene, should such suit be brought, for the purpose of freeing the patents vested by the Custodian from the license held by LaSalle under an illegal contract.

Very truly yours,
/s/ Raoul Berger
Raoul Berger
General Counsel

39

UNITED STATES DISTRICT COURT

* * (Caption—Civil Action No. 55 C 263) - *

MOTION TO STRIKE AFFIRMATIVE DEFENSES.

(Filed May 11, 1955)

Plaintiff moves the Court for an order striking from defendant's answer the first and second affirmative defenses, as alleged in paragraphs numbered 21, 21(a), 21(b), 21(c), 22, 23, 24, 24(a), 24(b), 24(c), and 24(d), on the ground that said affirmative defenses or any part

thereof fail to state a legal defense to the claim set forth in plaintiff's complaint herein.

/s/ Dallas S. Townsend
Dallas S. Townsend
Assistant Attorney General
/s/ R. Tieken
Robert Tieken
United States Attorney
/s/ James D. Hill
James D. Hill
/s/ Walter T. Nolte
Walter T. Nolte
/s/ Samuel Z. Gordon
Samuel Z. Gordon
/s/ Stephen Schalasny
Stephen Schalasny
Attorneys, Department of
Justice, Washington 25, D.C.
Attorneys for Plaintiff

MEMORANDUM IN SUPPORT OF MOTION TO STRIKE THE DEFENDANT'S AFFIRMATIVE DEFENSES

(Filed May 11, 1955)

40 STATEMENT OF FACTS

This is an action by the Attorney General of the United States as Successor to the Alien Property Custodian, for royalties due under a patent licensing agreement between the defendant and Tubus A. G., a business corporation organized under the laws of Switzerland. All interests and rights of Tubus A. G. in the said agreement, and in patents referred to therein, have been vested by the Attorney General, acting pursuant to the Trading with the Enemy Act (50 U.S.C. App. sec. 1, et seq.). The jurisdic-

tion of the Court has been invoked under the provi-
41 sions of section 17 of the Trading with the Enemy Act (50 U.S.C. App. sec. 17) and Title 28, United States Code, Section 1345. The suit was originally filed in the United States District Court for the District of Delaware. The defendant filed its motion to transfer the case to the United States District Court for the Northern District of Illinois pursuant to the provisions of 28 U.S.C.A. 1404(a). The motion was heard before the Honorable Richard S. Rodney, then presiding, and on the 14th day of February 1955 he granted defendant's motion and this action was transferred to this Court by his order.

The defendant has filed its answer, which includes affirmative defenses and a counterclaim.

The plaintiff now moves to strike the affirmative defenses filed by the defendant.

QUESTION PRESENTED

Whether the affirmative defenses which the defendant asserts are available to it against the Government.

ARGUMENT

POINT I

THE DEFENSE OF ILLEGALITY WHICH THE DEFENDANT ASSERTS IS NOT AVAILABLE AGAINST THE PLAINTIFF SINCE THE DOCTRINE OF IN PARI DELICTO DOES NOT APPLY TO THE GOVERNMENT IN THIS CASE.

The substance of the defendant's first affirmative
42 defense is that the license agreement (Contract, December 2, 1933) upon which this complaint is based is illegal, void and unenforceable because it is contrary to the public policy of the United States in that it violates

sections 1 and 2 of the Sherman Act (15 U.S.C. 331, 2). The defendant admits that it entered into an illegal contract and urges the Court to relieve it of any liability arising out of its terms under the well established principle that where the parties are in pari delicti the Court will leave the parties where it finds them and deny the plaintiff the relief for which he prays. However, in the present case, the plaintiff did not enter into the agreement upon which the complaint is based but became the owner of same by operation of law. The Attorney General alleges and the defendant admits that it entered into a contract with Tubus A. G. on December 2, 1933. The Attorney General[1] alleges the right to effect a recovery of the royalties due under this agreement by virtue of the vesting of the agreement by Vesting Order No. 3369 executed on March 29, 1944 by the Alien Property Custodian (p. 11 of the complaint). The authority to vest the agreement of Tubus A. G. is contained in section 5(b) and section 7(c) of the Trading with the Enemy Act, as amended (50 U.S.C. App., sec. 1, et seq.)

43 Shortly after the outbreak of World War II, section 5(b) of the Act was amended by Title III of the First War Powers Act of 1941 (55 Stat. 839) to read in part as follows:

> . . . Any property or interest of any foreign country or national thereof shall vest, when, as and upon the terms directed by the President, in such agency or person as may be designated from time to time by the

[1] By Executive Order No. 9788 (11 F. R. 11981), effective October 25, 1946, the President transferred to the Attorney General all authority, rights, privileges, powers, duties and functions vested in the Office of Alien Property Custodian and in the Alien Property Custodian. The terms "Alien Property Custodian" or "Custodian" as used in this memorandum will refer to the Attorney General or the Alien Property Custodian as the case may be.

> President, and upon such terms and conditions as the President may prescribe such interest or property shall be held, used, administered, liquidated, sold or otherwise dealt with in the interests of and for the benefit of the United States, and such designated agency or person may perform any and all acts incident to the accomplishment or furtherance of these purposes; . . .

This statutory power to seize, as embodied in section 7(c), and to vest, as embodied in section 5(b), affecting enemy property, was delegated by the President to the Alien Property Custodian by Executive Order No. 9193, dated July 6, 1942 (50 U.S. Code Annotated, App. sec. 6, Note), amending Executive Order No. 9095 of March 11, 1942 (50 U. S. Code Annotated, App. sec. 6, Note). The pertinent parts of the Order, as amended, are:

> Section 2. The Alien Property Custodian is authorized to take such action as he deems necessary in the national interest, including but not limited to, the power to direct, manage, supervise, control or vest, with respect to: . . . (c) any other property or interest within the United States of any nature whatsoever owned or controlled by, payable or deliverable to, held on behalf of or on account of, or owing to, or which is evidence of ownership or control by a designated enemy country or a national thereof . . .

By the vesting order, the Alien Property Custodian became the legal owner of Tubus A. G. rights under agreement between the defendant and Tubus A. G. by operation of law. The Attorney General did not become a
44 mere assignee for value but acquired the title by virtue of authority granted in an act of Congress. Under these circumstances, the Attorney General, acting in his official capacity, does not stand in the shoes of Tubus A. G. whom his predecessor had determined to be

a German enemy. Of course, if the Attorney General is merely in the shoes of the German (enemy) licensor he could not prevail in this suit, since it is conceded that if the licensor Tubus A. G. was in pari delicto with the defendant the law leaves equally guilty parties to an illegal agreement where it finds them. It is also conceded that the Supreme Court has established the rule that a licensor may not recover royalties from the licensee where the license agreement contained price-fixing clauses in violation of the antitrust laws.

MacGregor *v.* Westinghouse Co., 329 U.S. 402 (1947);

Katzinger Co. *v.* Chicago Mfg. Co., 329 U.S. 394 (1947).

If the parties are not of equal guilt, however, the rule has no application, and the plaintiff will be allowed to recover. The authorities for this proposition are numerous, suffice to mention a recent case, Pennsylvania Water and Power Co. *v.* Consolidated Gas, Electric Light & Power Co., 209 F. 2d 131 (C. A. 4, 1953, cert. den. 347 U. S. 960, 1954). Moreover, there is a dominant public policy upon which the plaintiff should prevail. Public policy will be furthered by affording the Government relief since any recovery by it will be held and administered for the benefit of the United States (section 5(b), Trading with the Enemy Act, 50 U.S.C. secs. 1-39); to pay creditors of
45 the enemy (section 34 of the Act); and to pay war claims (section 39, Trading with the Enemy Act); War Claims Act of 1948 (62 Stat., 1246, 50 U.S.C.A., App. sec. 39).[2]

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[2] Section 34 of the Act provides a comprehensive scheme for the payment of American creditors of the former enemy owners of vested property. The War Claims Act of 1948 (62 Stat., 1246) seeks to utilize vested assets for the compensation of Americans who suffered at the hands of the enemies.

To state the plaintiff's case briefly: the Government is not in pari delicto with the defendant. Recovery is permitted to such plaintiffs even under illegal contracts. An interesting analogy are those cases where the courts have said that the rights of the receivers or trustees are higher than those of the bankrupt or debtor, and that receivers or trustees will not be denied relief from the bankrupt's illegal agreements even though the bankrupt himself would have been denied relief.

Deitrick *v.* Greaney, 309 U. S. 190 (1940);

Texas and Pacific Railway Company *v.* Potoroff, 291 U. S. 245 (1934);

D'Oench, Duhme & Co., Inc. *v.* F.D.I.C., 315 U. S. 442, 447;

see also:

In re Progressive Wall Paper Corporation, 229 F. 489 (C.A. 2d, (1916);

Adcock *v.* New Crystal Ice Co., 144 Tenn. 511, 234 S. W. 336 (1921);

Restatement, Contracts, Section 604; 5 Williston Section 1789.

Thus, the plaintiff stands in a higher position than an assignee for value or even a trustee in bankruptcy because he is authorized and directed and compelled to recover the royalties to effect the public policy established by
46 the enactment of the Trading with the Enemy Act (50 U.S.C., secs. 1-39) and the War Claims Act (62 Stat., 1246, 50 U.S.C.A., App. sec. 39). While it may be argued that Tubus A. G. could not recover any royalties under the agreement it does not necessarily follow that the plaintiff should also be denied recovery. The issue was raised in the case of Standard Oil Company *v.* Clark, 163 Fed. 2d 917, 932 (C.A. 2, 1947), cert, den. 68 Sup. Ct. 901, where the Attorney General sought (inter alia) to re-

cover royalties. In that case, the Court of Appeals overruling the District Court permitted the Government to recover royalties under an agreement which was expressly found to be illegal by a consent decree. Judge Clark, speaking for the Court, stated "While he (the Custodian) is formally successor to I. G.'s rights, he is obviously in a different situation from the ordinary assignee for value; for he is the agent of a government seeking the destruction of I. G.'s power in America. Under these circumstances payments by Jersey to the Custodian are hardly fulfillment of an agreement calling for payments to I. G."

Furthermore, no public policy would be served in allowing the defendant to reap a windfall due to his own illegal act. The courts have granted relief even in those cases where the parties are in pari delicto on the general theory that the public interest would best be served if the illegal agreement were enforced.

Judge Story expounded the theory that an illegal agreement would be enforced under certain circumstances. In his work on Equity Jurisprudence (section 298, p. 303, 47 13th edition), he said:

> Relief is not granted where both parties are truly in pari delicto, except in cases where public policy would thereby be promoted.

Again in the same section, at pages 301, 302, he said:

> But in cases where the agreements or other transactions are repudiated on account of their being against public policy, the circumstances that the relief is asked by a party who is particeps criminis is not in equity material. The reason is that the public interest requires that the relief should be given, and it is given to the public through the party.

See also: Cleveland, C., C. & St. L. Ry. *v.* Hirsch, 204 Fed. 849, 858 (6th Cir. 1913).

The plaintiff merely asks the Court for a judgment for

a definite sum of money, for the defendant's use of the patents which are the subject matter of the contract. Public policy will best be served if the Government prevails. There is other authority for plaintiff's position that the defense of illegality is not available to the defendant.

Illegal contracts are not usually totally and absolutely void. Restatement, Contracts, section 598, Comments a, b; 5 Williston, Contracts (Rev. Ed. 1937), section 1630. Recovery is customarily denied not because of "the impropriety of compelling the defendant to pay damages" but "because the plaintiff is a wrongdoer, and to such a person the law denies relief". Restatement, Contracts, section 598, Comment A. Obviously, the Attorney General is not a wrongdoer as he did not enter into the illegal agreement. The contract was executed in 1933. The plaintiff had no knowledge of it nor can he be presumed
48 to have knowledge of it. The plaintiff was ignorant of all the facts surrounding the contract and did not participate in its execution. The courts have held that where one of the parties to an illegal contract was ignorant of the facts the principle of in pari delicto does not apply. In re Sylvester's Estate, 195 Iowa 1329, 192 N. W. 442 (1923). Furthermore, the principle in pari delicto potior est conditio defendentis does not apply if both parties are not equally guilty. The exception to the rule stems from Lord Mansfield's decision in Smith *v.* Bromley[3] where the Court said:

> If the act is in itself immoral, or a violation of the general laws of public policy, there, the party paying

[3] This exception was first recognized in the United States in Austin's Admix. v. Winston's Ex'x, 11 Va. (1 H. & M.) 32 (1806). Report on this case is given in Jones *v.* Barkley, 2 Doug. 648, 99 Eng. Rep. 434 (1781).

> shall not have this action; for where both parties are equally criminal against such general laws, the rule is, potior est conditio defendentis. But there are other laws, which are calculated for the protection of the subject against oppression, extortion, deceit, etc. If such laws are violated, the defendant takes advantage of the plaintiff's condition or situation, there the plaintiff shall recover, and it is astonishing that the reports do not distinguish between the violation of the one sort and the other.

The Attorney General, by basing his complaint on the contract between the defendant and Tubus A. G., obviously does not stand in the shoes of Tubus A. G. whom his predecessor has found to be an enemy (see Exhibit B of petition). He has acquired greater rights than the enemy for he is acting in the interest of the American public
49 and the interest of the American public is as high as or greater than the interest of creditors. In fact the property which the Custodian vested may now or ultimately be required to pay the claims of American creditors against this foreign national. Markham *v.* Cabell, 326 U. S. 404. There are other cases which hold that the Custodian does not stand in the position of the enemy.

In Central Hanover Bank & Trust Company *v.* Markham, 68 F. Supp. 829 (S.D.N.Y. 1946), the Custodian was held to be entitled to the corpus of trust even though the beneficiaries under the laws of New York could not themselves have reached the corpus. To the same effect is Matter of Benedit's Will, 214 App. Div. 446, 212 N. Y. S. 526 (1925).

In Kaname Fujino *v.* Clark, 71 F. Supp. 1 (D. C. Hawaii 1947), the Attorney General was held not to be bound by an unrecorded power of attorney granted by the enemy even though the enemy whose rights he had vested would have been so bound.

In Application of Alien Property Custodian of the United States, 60 N.Y.S. (2d) 897 (1946), the Custodian was held to be entitled to a fund in the custody of a committee of a mentally incompetent enemy even though the enemy himself could not have reached the fund.

And in the typical cloaking case where the enemy transferor by a transfer valid on its face purported to convey title to an American or a neutral with the understanding that the property would be returned to him after the war, although the enemy could not enforce the agreement to reconvey because of the illegality, the Government is nevertheless entitled to the property. Stoehr *v.* Wallace, 255 U. S. 239 (1921); Standard Oil Company *v.* Clark, supra; Kind *v.* Clark, 161 F. (2d) 36 (C. A. 2), cert. den. 68 Sup. Ct. 108.

In conclusion the plaintiff's position is that regardless of whether the contract is illegal and unenforceable because it violates the antitrust laws his right to recover is based on a sound public policy that the protection of American creditors and the furnishing of a fund to pay was claims is of paramount importance. A guilty licensee should not be unjustly enriched by the fruits of his illegal act.

POINT II

THE DEFENDANT CANNOT ASSERT A DEFENSE OF INVALIDITY OF THE PATENT AGAINST THE GOVERNMENT

In its second affirmative defense, the defendant attempts to contest the validity of the patent which is the subject matter of the contract. This defense is not available to the defendant in this proceeding.

It is well established that a licensee is estopped to deny the validity of a patent under which he manufactures in an action for accrued royalties.

Elgin National Watch Company *v.* Bulova Watch Company, 96 U.S.P.Q. 176.

Eno *v.* Prime Mfg. Co., 58 U.S.P.Q. 681.

Nor can he defend on the ground that he did not use the patent if the license provides for the payment of minimum royalties.

Elgin National Watch Company *v.* Bulova Watch Company, supra.

Enterprise Mfg. Co. *v.* Shakespeare Co. et al., 106 Fed. 2d 800; cert den. 309 U.S. 665.

The courts have established these rules on the theory that there is no public interest in allowing a licensee, merely because it repents of its bargain, to repudiate its agreement and shed its obligation.

Automatic Radio Co. *v.* Hazeltine, 339 U.S. 827.

The same rule applies even to an assignee of a licensee. The former cannot dispute the validity of the patent in a suit for royalties.

Reynolds *v.* Skinner, 166 Fed. 2d 66 (C. A. 6), 1948.

In the MacGregor and Katzinger Co. cases cited in 52 Point I (supra), the Supreme Court established the doctrine that royalties cannot be recovered by the licensor where the license contained price-fixing clauses. This was on the theory that the price-fixing clauses are inseparable and hence the whole agreement being in violation of the Sherman Act and the policy expressed therein would not be enforced and the court would leave the parties where it found them on ordinary principles expressed in the doctrine of in pari delicto. The court also allowed the defense of invalidity of the patent to be available to a defendant where the license agreement contained the price-fixing clauses. This doctrine has not been extended so that the validity of the patents can be questioned in any suit for royalties. It is not extended to cover the facts in this case. The defendant does not contend that the license with Tubus A. G. was illegal because of price-

fixing clauses in the contract but asserts only that Section 13 of the agreement violated the Sherman Act because it provided for restrictions on importing and exporting of products made under the patent.

The lower court had the issue before it in the case of Automatic Radio Mfg. Co. *v.* Hazeltine Research, 176 F. 2d 799; aff'd 339 U.S. 827; on page 806 the court stated:

> The Court (Supreme Court) in the Katzinger and MacGregor cases, deemed the price-fixing undertaking to be an inseparable part of the "integrated consideration for the license grant"; and in such circumstances concluded that the public interest in "freedom from invalid patents and from restraints of trade . . ." would best be served by allowing the licensee to set up the invalidity of the patent in defense to a suit for royalties. It confined its decision to the set of facts before it, and pointedly declined to lay down the broader rule that a licensee may in all cases defend on the ground of invalidity of the patent even when no price-fixing stipulation was involved in the license contract.

53 And in Bankland v. N. A. Goodman Mfg. Co., 95 P.Q. 387, Ill. App. Ct. 1952, the Appellate Court in Illinois noted that the exception to the doctrine of estoppel has not been extended beyond the "price-fixing" cases for in that case the Court stated on page 388,

> In no case brought to our attention has the Supreme Court extended the exception beyond cases wherein the license agreements contained price-fixing provisions which could be sustained only under the monopoly granted by a valid patent.

Moreover, not only is the defendant estopped to deny the validity of the patent and its non-use, it is also estopped to deny that Fritz Singer had invented anything new.

Sluica-Del Mac *v.* Milims Shoe Co., 145 F. 2d 389 (C.A. 8 (1944).

CONCLUSION

The Court should grant the order striking the affirmative defenses asserted by the defendant.

/s/ Dallas S. Townsend
Dallas S. Townsend
Assistant Attorney General

/s/ R. Tieken
Robert Tieken
United States Attorney for the
Northern District of Illinois

James D. Hill
James D. Hill

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55 MEMORANDUM IN OPPOSITION TO PLAINTIFF'S MOTION TO STRIKE DEFENDANT'S AFFIRMATIVE DEFENSES

(Filed May 31, 1955)

MAY IT PLEASE THE COURT:

The Attorney General, as successor to the Alien Property Custodian, has sued La Salle to recover royalties allegedly due under a patent license agreement, dated December 2, 1933, between La Salle and Tubus A. G., a Swiss corporation. The rights and interests of Tubus in this agreement were vested in the Alien Property Custodian by an order dated March 29, 1944.

La Salle's answer to the complaint is in two parts. Paragraphs 1-20 (pp. 1-4) answer the allegations of the complaint; paragraphs 21-24 (pp. 4-7) set up two affirmative defenses. In addition, La Salle's responsive pleading also contains a counterclaim in two counts (pp. 7-10).

56 The affirmative defenses each attack, on somewhat different theories, the legality and enforceability of the 1933 agreement. The plaintiff has moved to strike both of these defenses, and it is this motion which is now pending before the Court.

The instant memorandum is in answer to the extensive brief which the plaintiff has filed in support of his motion to strike. Following the arrangement of plaintiff's brief, it is in two parts—one relating to the first affirmative defenses, the other to the second.

FIRST AFFIRMATIVE DEFENSE

La Salle's first affirmative defense, contained in paragraphs 21 and 22 of its answer (pp. 4-6), is that the 1933 agreement is illegal, and therefore unenforceable, under the antitrust laws of the United States. The essential allegations of this defense are as follows:

1. The patents covered by the 1933 agreement related to machines, apparatus and processes for the extrusion of metal. These patents did not relate to, or cover, the objects or products so extruded. Consequently, the patents in question did not preclude the importation into, and use within, the United States of products produced outside the United States by the inventions covered by the agreement.

57 2. At the time of the 1933 agreement Tubus A. G. also owned various foreign patents which also related to the inventions covered by the agreement. These foreign patents did not preclude the exportation, to the foreign nations wherein such patents had been issued, of products extruded within the United States by the patented machines, apparatus and processes.

3. Section 13 of the license agreement provided that the defendant would not export any product made in accordance with the licensed machines, apparatus or processes to any country in which Tubus had granted licenses to practice the inventions covered by the agreement. Tubus in turn promised to insert in any and all licenses granted by it in countries other than the United States a clause prohibiting the exportation of such products to the United States.

4. The purpose and effect of Section 13 of the license agreement was to restrain the commerce of the United States and to give La Salle a monopoly, within the United States, of extruded metal products produced in accordance with the licensed inventions, notwithstanding that such products were not themselves protected by the patents licensed to it under the agreement.

58 It is La Salle's contention that under these circumstances the 1933 license agreement was illegal, and that its illegality barred any action for royalties by Tubus, or by any person succeeding, by assignment, seizure or otherwise, to the rights and interest of Tubus in that agreement. On the other hand, it is the position of the plaintiff that this defense is not available against him.

La Salle's contention depends upon a few simple, basic legal propositions. These can be stated quite briefly.

First, there is no question but that Section 13 of the 1933 agreement violated the antitrust laws, specifically Sections 1 and 2 of the Sherman Act (15 U.S.C. §§ 1, 2). Essentially identical provisions were held illegal in United States v. Imperial Chemical Industries, 105 F. Supp. 215, 225 (S.D.N.Y. 1952); and the section also falls within the numerous cases invalidating license provisions calculated to expand the scope of the monopoly granted by the licensed patent. See, e.g. Morton Salt Co. v. G. S. Suppiger Co., 314 U.S. 488 (1942); National Lockwasher Co. v. George K. Garrett Co., 137 F. 2d 255, 256 (3d Cir. 1943); McCullough v. Kammerer Corp., 166 F. 2d 759, 761 (9th Cir. 1948); Park-In Theatres, Inc. v. Paramount-Richards Theatres, Inc., 81 F. Supp. 466, 472-475 (D. Del. 1948), 90 F. Supp. 730 (D. Del. 1950), aff'd on opinions below, 185 F. 2d 407, 408 (3d Cir. 1950).

Indeed, the plaintiff would seem to agree that the 1933 license agreement contravened the antitrust laws. Thus,

in 1945, the then Alien Property Custodian, through
59 his General Counsel, advised La Salle that "the Antitrust Division is of the opinion that the agreement of December 2, 1933 between La Salle Steel Company and Tubus, A. G. . . . is in violation of the antitrust law and is illegal thereunder." The Custodian further warned that should La Salle attempt to enforce, by legal proceedings, the license granted to it by the agreement, the Custodian would intervene "for the purpose of freeing the patents vested by the Custodian from the license held by La Salle under an illegal contract." (Def's. Ans., Exhibit A). That is, to say, not only was the 1933 license agreement illegal, but by reason of such illegality La Salle had no rights thereunder which it could enforce in a court of law.

Second, there is no substantial question but that the illegality of the 1933 agreement would have barred any action by Tubus for royalties thereunder. Thus, in Park-In Theatres, Inc. v. Paramount-Richards Theatres, Inc., 81 F. Supp. 466 (D. Del. 1948), 90 F. Supp. 730, 735 (D. Del. 1950), aff'd. on opinions below, 185 F. 2d 407, 408 (3d Cir. 1950), the plaintiff sued for royalties under a license agreement between it and the defendant. The license agreement related to a patent for drive-in theatres. The license agreement contained the following provision:

> "Licensee covenants and agrees that it will not either directly or indirectly promote or aid the making, construction, use or operation of any drive-in theatre not licensed by Licensor."

60 The Court held that this provision constituted a misuse of the patent in that it represented an effort to "extend" the monopoly granted by the patent. The Court then ruled that the plaintiff could not recover royalties under the license agreement. Said the Court:

"Without deciding at this point whether plaintiff has

or has not purged itself or cancelling or in some way terminating the contract, it seems reasonably clear that it could only recover royalties under the agreement of November 20, 1940 for the period during which that agreement was in force, and that the agreement contained the condemned restrictive covenant as long as it was in force. Recovery of royalties under the agreement is therefore barred for the whole term of its existence by reason of its invalidity."

Similarly, in Edward Katzinger Co. v. Chicago Metallic Mfg. Co., 329 U.S. 394 (1947), the Supreme Court held that the presence, in a patent license agreement, of illegal price-fixing provisions would bar, even after the expiration of the agreement, any suit thereunder for royalties. See also MacGregor v. Westinghouse Electric & Mfg. Co., 329 U.S. 402 (1947).

In this connection, it should be noted that the plaintiff has no possible claim against La Salle except under the 1933 license agreement; for La Salle did not itself produce under the patents covered by that agreement. The plaintiff's claim for royalties relates solely to production by alleged sub-licensees of La Salle. Consequently,
61 unless the plaintiff can enforce an admittedly illegal agreement, he cannot recover.

Third, it is established that the assignee, even an assignee for value, of a non-negotiable contract, such as the 1933 agreement, takes it subject to every defense and equity which might have been asserted against the assignor. 2 Williston, Contracts, § 432 (Rev'd. Ed. 1936); 2 Pomeroy, Equity Jurisprudence, § 704 (5th Ed. 1941); 6 C.J.S. 1164-1165, Assignments § 114. The Supreme Court, a century ago, applied this rule to the defense of illegality, holding that a party to an illegal agreement could interpose that defense, in a suit by an assignee, to the same extent that he could have done so had the suit

been brought by the assignor. McBlair v. Gibbes, 17 How. 232, 236 (1855). Similarly, the rule has been applied to the defense that a contract contravened the antitrust laws. Boatmen's Bank v. Fritzlen, 175 Fed. 183, 187 (C.C.D. Kan. 1909). Consequently, the defense of illegality is not personal to the parties to the law suit; it attaches to the contract itself, thus barring successors in interest who were not themselves personally parties to the original illegal transaction.

Finally, it is clear that neither the applicable statute, nor the vesting order in question, authorized the taking, or purported to take, more than the interests or rights of the enemy alien, in this case, Tubus.

62 The statutory provision upon which plaintiff relies in its brief merely authorizes the vesting of "Any property or interest of any foreign country or national thereof . . . " (Pl. Br. p. 4). There is nothing in the statute to give the Custodian a greater property, interest or right, as against an American citizen or corporation, than the alien himself would have had.

The vesting order, set up as an exhibit to the Complaint (Complaint, Ex. B), reads in relevant part as follows:

> "All interests and rights (including all royalties and other monies payable or held with respect to such interests and rights and all damages for breach of the agreement hereinafter described, together with the right to sue therefor) created in Tubus A. G. by virtue of an agreement dated December 2, 1933 . . . by and between Tubus A. G. and LaSalle Steel Company . . ."

There is nothing in this order to indicate that the Custodian was claiming, or purporting to take more than such rights as Tubus in fact possessed. For example, since the agreement was unenforceable, it would appear that the Custodian got nothing when he seized the "right to sue . . . created in Tubus" by the agreement.

Moreover, the Courts have consistently held that the Alien Property Custodian obtains only such property interests, or rights of action, as the alien possessed at the time of the vesting order. McGrath v. Ward, 91 F. Supp. 636, 638 (D. Mass. 1950); F.A.R. Liquidating Corp. v. 63 McGranery, 110 F. Supp. 580, 585 (D. Del. 1953); Clark v. Edmunds, 73 F. Supp. 390, 393-394 (W.D. Va. 1947); Schering Corp. v. Gilbert, 153 F. 2d 428, 434 (2d Cir. 1946); Sutherland v. Selling, 16 F. 2d 865, 868 (9th Cir. 1926); Miller v. Rouse, 276 Fed. 715, 716 (S.D. N.Y. 1921; opinion by Learned Hand).

Since the Custodian thus obtained, by the vesting order, only such rights as Tubus possessed, and since the illegality of the agreement barred any action for royalties either by Tubus or by any party claiming through it, there is no question but that the plaintiff cannot recover in this action. Consequently, LaSalle's First Affirmative Defense is valid.

It remains, however, in deference to the plaintiff's high office, to dispose of the various anomalous arguments which he has advanced in an effort to show that he should be permitted to recover, under an illegal contract, even though his predecessor in interest would not have been able to recover.

In so far as we can determine, the plaintiff has advanced and commingled five different arguments. We will discuss each of them separately.

1. "Operation of law" argument

On pages 3 to 5 of his brief, the plaintiff seeks to prevail through invocation of a magical phrase—"operation of law." He argues that the "Custodian became the legal owner of Tubus A. G. rights under the agreement" not as a "mere assignee for value" but "by operation of law".

It is the contention of the plaintiff that he thereby 64 acquired greater rights than Tubus itself possessed,

greater rights than Tubus could have conveyed to an assignee for value.

In brief, it is the contention of the plaintiff that a person who succeeds to the property interests or rights of another pursuant to statute thereby acquires more extensive interests or rights than that other person himself possessed.

This, needless to say, is not and never has been the law. On the contrary, the rule is well established that a transfer of a person's interest by operation of law, and without value, conveys no greater rights than such person himself possessed. 4 Am. Jur. 284-285.

The usual status of a transferee by operation of law was very well defined by the Supreme Court in Hoffeld v. United States, 186 U.S. 273, 276 (1902). Said the Court:

> "Assigns' or, as the word is more commonly spelled, 'assignees,' are of two classes, depending upon the manner of their creation: first, voluntary assigns, who are created by act of the parties; and second, assignees created by operation of law. Whether in a given case an assignee belongs to the first or second class depends upon the purpose for which he was created, the object to be attained by his creation, and the language of the statute or other instrument from which he derives his powers. A voluntary assignee is ordinarily invested with all the rights which his assignor possessed, with respect to the property; while the rights of an assignee by operation of law are such only as are necessarily incident to the complete possession and enjoyment of the things assigned. A voluntary assignee takes the property with all the rights thereto possessed by his assignor and if he has paid a valuable consideration, may claim all the rights of a bona fide purchaser with respect thereto. Upon the other hand, an assignee by operation of law, as,

> for instance, a purchaser at a judicial sale, takes only such title as the execution debtor possessed at the time of sale. The Monte Allegre, 9 Wheat. 616. The doctrine of caveat emptor applies in all its rigor, and the buyer cannot set up the rights of a bona fide purchaser, even against an unrecorded deed. Thus in Burbank v. Conrad, 96 U.S. 291, it was said of property condemned and sold as enemies' property under the confiscation act, that the 'United States acquired by the decree, for the life of the offender, only the estate which at the time of the seizure he actually possessed; not what he may have appeared from the public records to possess, by reasons of the omission of his vendees to record the act of sale to them; and that estate, whatever it was, for that period passed by the Marshal's sale and deed; nothing more and nothing less. The registry act was not intended to protect the United States in the exercise of their power of confiscation from the consequences of previous unrecorded sales of the alleged offender.' It was held in connection with the same transaction that the purchaser was not even entitled to a return of his purchase money. Waples v. United States, 110 U.S. 630."

And as shown earlier, the statute and regulations under which the plaintiff claims contain no provisions which would change this general rule.

Thus, the fact that the plaintiff became the owner of Tubus' rights by operation of law rather than by assignment, avails him nothing as against La Salle's First Affirmative Defense.

2. Bankruptcy Analogy

On page 6 of his brief, plaintiff argues as follows: "An interesting analogy are those cases where the courts have said that the rights of the receivers or trustees are higher than those of the bankrupt or debtor, and that receivers

or trustees will not be denied relief from the bankrupt's illegal agreements even though the bankrupt himself would have been denied relief."

66 The implication of the quoted passage is that a receiver or trustee in bankruptcy will be permitted, as a general rule, to recover on the illegal agreements of the debtor even though the debtor himself would have been barred from such recovery. This is not true. The applicable principle is quite different. A receiver or trustee in bankruptcy usually acquires only such rights or interests as the debtor possessed, and he takes them subject to all defenses or equities which might have been asserted against the debtor. See 8 C.J.S., 664-665, Bankruptcy § 199:

> "Except in so far as the trustee is subrogated to the rights of creditors which exceed as to the particular property the rights of the bankrupt, the trustee has no superior rights or greater interest in the property and occupies no better position with respect thereto than the bankrupt, and he takes the property, not as an innocent purchaser for value, without notice, but as the debtor had it at the time of bankruptcy, subject to all valid claims, liens and equities."

That is to say, a Trustee or receiver is able to recover, notwithstanding the illegality of the debtor's agreements, only where such illegal agreements, when made, infringed the rights of creditors. And all five of the cases cited by the plaintiff involve this very limited situation.

In Detrick v. Greaney, 309 U. S. 190 (1940), a national bank had acquired, contrary to statute, certain shares of its own stock. To disguise this illegal transaction, the shares were transferred to the defendant who gave his note to the bank for the price of the shares, subject however, to a secret agreement that the shares were to be

67 held for the account of the bank and that he should not

be liable on the note. A similar situation was involved in D'Oench, Duhne & Co. Inc. v. Federal Deposit Insurance Corp., 315 U. S. 447 (1942), where the defendant had given notes to a bank, for inclusion in its portfolio, on the written understanding that the notes would not be called for payment and that all interest payments would be repaid, and in Texas & Pacific Ry. v. Pottorff, 291 U.S. 245 (1934), the Court merely upheld the title of the receiver of a national bank to assets which had been illegally pledged to secure a private deposit. Adcock v. New Crystal Ice Co., 234 S.W. 336 (Tenn. 1921), involved an action by a trustee in bankruptcy to recover funds the disbursement of which had been a violation of the rights of creditors under the trust fund doctrine; In re Progressive Wall Paper Corp., 229 Fed. 489 (2d Cir. 1916), involved a petition, by a trustee in bankruptcy to set aside the lien, and obtain the return of various bonds which had been illegally issued by the bankrupt corporation.

Thus, the above cases do not support, as the plaintiff would have the Court believe, the proposition that the rights of a trustee or receiver are ordinarily superior to those of the debtor. These cases illustrate instead two much more limited propositions:

1. A trustee in bankruptcy has, in effect, two sources of title—one, the debtor, two, the debtor's creditors. If the righs of the creditors, as against a third person are superior to those of the debtor; the rights of the trustee will likewise be superior.

68 2. Creditors will have rights superior to those of the debtor, as a result of an illegal transaction, where the transaction violated some rule, created either by statute or judicial decision, for the protection of creditors—i.e., fraudulent conveyance, illegal preference, purchase by a bank of its own shares, etc.

Needless to say, neither of these principles is of any assistance, even by way of analogy, to the plaintiff in the case at bar. The plaintiff is the transferee, by operation of law, of the rights and interest of Tubus A.G. He has no claim derived from any person, if any person there was, whose rights were infringed by the illegal transaction between Tubus and La Salle in 1933.

The only circumstance in which the analogy of the above cases would be of assistance to the plaintiff is that alluded to on pages 10-11 of the plaintiff's brief: a conveyance in fraud of the Custodian. If property is conveyed by an alien to an American, in an effort to avoid seizure, on a secret agreement to hold the property for the benefit of the alien and to reconvey it to him once the possibility of seizure is past, the Custodian can reach and vest the property even though the agreement to reconvey would probably be unenforceable as a fraudulent scheme to evade the provisions of the Trading with the Enemy Act. However, this is not the situation in the case at bar.

69 3. Case Authority

Plaintiff cites, on page 7 of his brief, Standard Oil Co. v. Clark, 163 F. 2d 917, 932 (2d Cir. 1947) cert. denied, 333 U.S. 873 (1948). This decision is cited by the plaintiff in an effort to show that the Second Circuit, in a similar situation, adopted the argument which plaintiff is now advancing. However, plaintiff achieves this result only by a highly misleading statement of the case, coupled with a quotation wrenched out of context.

In the Standard Oil case, the Standard Oil Co. of New Jersey, and certain of its subsidiaries, had entered into various patent arrangements with I. G. Farbenindustrie, the German chemical combine. Early in 1942, the Alien Property Custodian, seized the property interests and patent rights, owned by I.G., which were related to these arrangements with Standard. Subsequent to the seizure,

the United States commenced an anti-trust proceeding against Standard. The Custodian, as owner of the I.G. interests and patents, was a party to this suit. The action was terminated by a consent decree, to which decree the Custodian also consented. Various provisions of the decree prohibited royalty payments to I.G. under certain patents, then owned by the Custodian. Standard invoked the decree in an effort to avoid payment of royalties to the Custodian. The Court of Appeals for the Second Circuit rejected this contention, holding that such a result was not fairly to be ascribed to the consent decree, particularly since the Custodian had been a party to it. The Court's discussion of the question is set forth in full below. The quotation upon which plaintiff relies appears in the middle of the first paragraph.

"These provisions, considered against the background, purposes and results of the decree, do not suggest the propriety of reducing the Custodian's interests in the S.I.G. patents. The injunctive provisions against accounting to I.G. specifically mention I.G. by name. They do not purport to forbid relations with any government agency which succeeds to I.G.'s interests by seizure. So also the prohibition against Jersey's execution of the provisions of the Four-Party Agreement applicable between the parties to that agreement should not be extended to the Custodian. While he is formally successor to I.G.'s rights, he is obviously in a different situation from the ordinary assignee for value; for he is the agent of a government seeking the destruction of I.G.'s power in America. Under those circumstances payments by Jersey to the Custodian are hardly fulfillment of an agreement calling for payments to I.G. Nor is the purpose of the decree subserved by a contrary holding. It was aimed at a situation in which the members of the Jersey group were

wrongdoers, monopolistically restraining trade. The United States had instituted an action against them, but against the background of the war accepted a consent decree. It is not a permissible inference from these facts that the Government intended to donate to the Jersey group a very valuable group of licensing and royalty rights as virtually a reward for their wrongdoing.

"Such an inference is further negatived by other factors. Negotiations leading to the decree were long and carefully conducted between representatives of the Antitrust Division of the Department of Justice and counsel for these plaintiffs. But the office of the Alien Property Custodian had been created in the Office for Emergency Management by Executive Order only two weeks before the filing of the decree. Exec. Order 9095, 3 CFR, Cum. Supp., 1121. Even if the negotiators for the Department of Justice knew of the impending creation of the Custodian's Office, they
71 could not have known before its creation exactly what property the Custodian would purport to vest. The inartistic language used should not be interpreted as showing an intention to give away valuable property interests vested in the Custodian. Nor is it to be easily inferred that the court or the defendant's counsel were led so to understand. Since the Custodian was appointed so recently before the decree, he had a very small part, if any, in the negotiations and little opportunity to ascertain exactly what property interests he was to acquire by his vesting order. It is very questionable whether he understood such oblique provisions as secs. III, IV(1), and IV(3) as taking away from him what he had just seized. His participation in the decree was actually for quite a

> different purpose, as indeed the express reservation of his rights in sec. XII indicates. His appearance as successor to I.G. was necessary to provide a defense for the Jersey group against a possible later suit by I.G. in a foreign court for nonperformance of the agreements between the two. In the early part of 1942, action was quickly taken and documents hurriedly drafted. We should avoid drawing irrational conclusions from their sometimes unartful wording. We conclude therefore, that the Custodian's interests in the S.I.G. patents were not diminished by the consent decree, and that the judgment in this action should be accordingly modified."

It can be seen from the Court's opinion that it merely construed a consent decree to which both the licensee and the Custodian were parties. It did not, as the plaintiff would have the Court believe, even consider the question whether the Custodian, by seizure, obtains the right to enforce an illegal agreement which its predecessor in interest could not have enforced.

Equally inapposite are the cases cited by plaintiff on page 10 of his brief. In Central Hanover Bank & Trust Co. v. Markham, 68 F. Supp. 829 (S.D. N.Y. 1946), the Court merely held that where the Custodian had become the owner of all beneficial interests in a trust, both life estate and remainders, the trust corpus should be paid to him rather than be retained by the Trustee until the Trust would otherwise have terminated. Similarly, in
72 Application of Alien Property Custodian of the United States, 60 N.Y.S. 2d 897 (1946), where the Custodian had seized the property and estate of an alien who had been adjudged incompetent, the Court merely directed the Committee managing the incompetent's property to turn it over to the Custodian. Both of these cases involved the right of the Custodian to immediate possession of property

of which he was the sole beneficial owner. They did not impose, as the plaintiff seeks to do in the case at bar, a financial liability which did not even exist prior to the vesting order.

In Re Bendit's Will, 212 N.Y. Supp. 526 (1925), held that where the Custodian had seized a German national's life estate he was entitled to income accruing under that life estate after the official conclusion of the war. Kaname Fujino v. Clark, 71 F. Supp. 1 (D. Hawaii 1947), involved the seizure of property conveyed by a Japanese father to his son, an American citizen, prior to the outbreak of war. The Court found that since the son had "acted in behalf of or under the control of his father" the seizure was valid. Neither of these cases supports, in any way whatsoever, the proposition that the Custodian by seizure, obtains the right to enforce an illegal agreement which his predecessor in interest could not have enforced.

4. Public Policy Argument

On the pages 4 and 5 of plaintiff's brief, there appears this intriguing passage:

> "Moreover, there is a dominant public policy upon which plaintiff should prevail. Public policy will be
> 73 furthered by affording the Government relief since any recovery by it will be held and administered for the benefit of the United States (section 5(6), Trading with the Enemy Act, 50 U.S.C. secs. 1-39); to pay creditors of the enemy (section 34 of the Act); and to pay war claims (section 39, Trading with the Enemy Act); War Claims Act of 1948 (62 Stat. 1246, 50 U.S.C.A. App. sec. 39)."

See also, Plaintiff's Brief, pages 8, 9 and 10.

As we understand the plaintiff's argument, it is this: If the plaintiff prevails, the money he recovers will be used for good, noble and humanitarian purposes; therefore, the plaintiff should prevail.

The possibilities inherent in this line of argument are vast indeed. The eleemosynary functions of the Federal Government are world wide in scope, and its vast defense expenditures can be said to be vital to the very existence of civilization. Under these circumstances, it is hard to conceive of a case in which the Government could not make "better" use of the money than the "mere" private litigant. If the plaintiff's contention is sound, judgment for the Federal Government would be automatic in any case involving money to which it is a party, whether as plaintiff or as defendant. The phrase: "The Government needs the money" would be sufficient to defeat any claim, to brush aside any defense.

Perhaps the best that can be said for the plaintiff's public policy argument is that it would permit a great decrease in the number of attorneys employed by the Department of Justice.

5. Not in Pari Delicto Contention.

Running throughout the Plaintiff's brief is an argument which can be summed up by the following syllogism:

74 1. Where the parties are not in pari delicto, the "innocent party" may recover even under an illegal contract.

2. The plaintiff is not in pari delicto with the defendant.

3. Therefore, the plaintiff can recover even though the 1933 license agreement was illegal.

The trick in this argument lies, of course, in the twist given to the term "parties".

As used in the plaintiff's brief, that term means the parties to a law suit brought to enforce the illegal agreement. Actually, the term refers to the parties to the agreement or contract.

We have already demonstrated that the defense of illegality is as available against the assignee of an illegal

contract as it would have been against the assignor. This means, of course, that the test of enforceability is whether the parties to the contract were in pari delicto. The question is not whether the parties to the law suit are in pari delicto; for if this were the test, then an assignee of an illegal agreement could enforce it, provided only that he had not participated in the making of the agreement.

In this connection, it should be noted that the classic statements, of the rule that a party not in pari delicto may occasionally recover, use the terms party, and parties to refer to the parties to the illegal agreement or
75 transaction. Restatement, Contracts § 604; 1 Pomeroy Equity Jurisprudence § 403; a id. § 942.

It is, therefore, irrelevant that the plaintiff is not in pari delicto. It matters not that he may be as innocent as the proverbial new born babe. The decisive factor is that his predecessor in interest, Tubus, was in pari delicto. The plaintiff's title can rise no higher than its source; and as we have shown Tubus could not have collected one cent from La Salle under the 1933 agreement.

For this reason, we need not discuss, at any great length, the various authorities cited on pages 8 and 9 of plaintiff's brief. They merely indicate that if a party to an illegal transaction was not in pari delicto he is sometimes allowed to recover. They do not indicate that Tubus A. G. was such an "innocent" party. Neither do they demonstrate that the assignee or transferee of an illegal and unenforceable contract can enforce it even though his predecessor could not.

In conclusion, it is La Salle's position that the plaintiff holds the rights and interest of Tubus under the 1933 license agreement subject to any and all defenses which La Salle might have asserted against Tubus, and that since Tubus could not have enforced the agreement against La Salle, neither can the plaintiff. For these reasons, La Salle's First Affirmative Defense is valid.

SECOND AFFIRMATIVE DEFENSE

La Salle's second affirmative defense is contained in paragraphs 23 and 24 of the answer (pp. 6-7). The
76 essential allegation of this defense is that Reissue Patent No. 19,474, the key patent covered by the 1933 agreement and the only one under which La Salle's alleged sub-licensees produced any material, is invalid.

La Salle concedes the general proposition, established by plaintiff at such length on page 12 of his brief, that a licensee is normally estopped, when sued for royalties, to contest the validity of the licensed patent.

To this rule the Supreme Court has established one important exception. Where a patent license agreement contains provisions which are valid only if within the protection from the antitrust laws afforded by a patent, then the licensee is not estopped, when sued for royalties, to contest the validity of the patent. Sola Electric Co. v. Jefferson Electric Co., 317 U.S. 173 (1942); Edward Katzinger Co. v. Chicago Metallic Mfg. Co., 329 U.S. 394 (1947); MacGregor v. Westinghouse, 329 U.S. 402 (1947).

It is quite true that the principle of the Sola, Katzinger and MacGregor cases does not permit any licensee, under any license agreement, to challenge the validity of the patent when sued thereunder for royalties. Automatic Radio Mfg. Co., Inc. v. Hazelfine Research Inc., 176 F. 2d 799, 806 (1st Cir. 1949). On the other hand the principle is not limited to license agreements which contain price-fixing provisions. The reasoning of the Supreme Court in the Sola case extends to any license agreement which contains provisions which would be illegal under the antitrust laws in the absence of a valid patent and
77 the partial immunity from the antitrust laws afforded by the patent monopoly.

We demonstrated, in the preceding section of this memorandum, that Section 13 of the 1933 license agreement was

in violation of the antitrust laws. However, even if that section were valid, as part of an agreement licensing a valid patent, there is no doubt whatsoever but that it would be unlawful in any contract other than a patent license. U. S. v. United Engineering & Foundry Co., 1952-53 CCH Trade Cases 67,378, p. 67,978 (W.D. Pa. 1952); U. S. v. Decca Records, 1952 CCH Trade Cases 67,402, p. 68,057 (S.D. N.Y. 1952).

Consequently, La Salle is not estopped to contest the validity of the licensed patent. Accordingly, La Salle's Second Affirmative Defense is valid.

CONCLUSION

For the reasons stated above, the Court should deny the plaintiff's motion to strike the defendant's affirmative defenses.

Respectfully submitted,
/s/ Vincent O'Brien
Vincent O'Brien
Attorney for the defendant.

Received a copy of the foregoing memorandum this 31st day of May, 1955.

/s/ R. Tieken U. S. Attorney
Attorney for the plaintiff

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UNITED STATES DISTRICT COURT

* * (Caption—No. 55 C 263) * *

PLAINTIFF'S REPLY TO DEFENDANT'S MEMORANDUM ON MOTION TO STRIKE DEFENDANT'S AFFIRMATIVE DEFENSES.

(Filed Jul 26 1955)

Plaintiff believes that a brief resume of additional facts may be useful to the Court to assist it in ruling on the present motion. They are as follows:

On December 2, 1933, the LaSalle Steel Company, the defendant in this proceeding, entered into a written agreement with Tubus, A. G., a corporation organized under the laws of Switzerland. By said agreement, La Salle Steel Company was licensed to use certain United States patents owned by Tubus, A. G. A copy of this agreement is attached to the complaint as Exhibit A and made a part thereof.

On March 29, 1944, James E. Markham, the then Alien Property Custodian, acting pursuant to the authority delegated to him under the provisions of the Trading with
79 the Enemy Act, as amended (50 U.S.C. App. Secs. 1-40), issued Vesting Order No. 3369.[1] A copy of said Vesting Order is attached to the complaint as Exhibit B and made a part thereof.

By said Vesting Order, the Custodian acquired title to the patents which are involved in this action (paragraph (a) of Exhibit A of Vesting Order No. 3369), and he also vested all of Tubus' rights and interests in the contract of December 2, 1933 (paragraph (b) of Exhibit A of the Vesting Order).

La Salle alleges that it did not manufacture under the contract of December 2, 1933 (Answer, paragraphs 18, 23). However, it granted sub-licenses to Eaton Manufacturing Company and Thompson Products Company, domestic corporations, to manufacture under patents covered by the 1933 agreement (Answer, paragraphs 10, 11, 23; counterclaim, para. 1). Each sub-licensee was required to pay

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[1] The Office of Alien Property Custodian was created by Executive Order No. 9095 (March 11, 1942, 7 F. R. 1971). This Executive Order as amended by Executive Order No. 9193 is set forth at 50 U.S.C. App., Sec. 6 Note. The Attorney General succeeded to the powers and functions of the Alien Property Custodian by Executive Order No. 9788 (October 14, 1946, 11 F.R. 1198).

La Salle royalties of ten dollars ($10.00) per ton on all finished valves and tappets manufactured.

The defendant collected royalties in the amount of $96,652.80 from these sub-licensees for the use of
80 the patents. The plaintiff has demanded that defendant pay to him the royalties due under the 1933 agreement which is $21,377.29. Defendant has refused and this complaint is filed to enforce compliance with the Vesting Order by compelling defendant to pay over to plaintiff this sum of $21,377.29 plus interest. The defendant has filed its answer, affirmative defenses and a counterclaim.

In defendant's first affirmative defense, it alleges that the 1933 agreement was illegal and therefore unenforceable. By its second affirmative defense, the defendant challenges the validity of one of the patents which is the subject matter of the contract.

Plaintiff Attorney General has moved to strike the affirmative defenses on the ground that they are insufficient as a matter of law and has filed his memorandum in support of the motion and the defendant has filed its memorandum in opposition. The plaintiff now files his reply memorandum in support of the motion.

ARGUMENT

I

The Plea of Illegality, Although Perhaps Available to the Defendant Against Tubus A. G. is not Available to It Against the Attorney General in this Action.

The defendant in its memorandum takes the position that the 1933 agreement created no rights in Tubus A. G. because of the provision in the agreement which restrained the export of products manufactured under the patents. Defendant contends that since this clause (paragraph No. 13 of the agreement) violated Sections 1 and 2 of the Sherman Act, the whole agreement was illegal and there-

fore the Attorney General got nothing when he seized the rights and interests created in Tubus A. G. by the agreement. This argument is advanced at pages 4 through 8[1] 9 of defendant's memorandum opposing the motion.

Even if Tubus was disqualified by the illegality from recovering the royalties from defendant, it would not follow that the Attorney General, who sues on behalf of the United States, could not. He is not in pari delicto with Tubus, and the fact that the contract may have involved a violation of the antitrust laws will not be allowed to shield the property from the Trading with the Enemy Act.

When the courts refuse to enforce an illegal contract, it is because the plaintiff is a wrongdoer who is penalized for the public good. Restatement of the Law of Contracts (1933), § 598, Comment a; § 601; Restatement of the Law of Agency (1933) § 412, Comment a. It is in the public interest to discourage such transactions.

In that respect the Attorney General does not stand in the shoes of Tubus. He is not acting on behalf of the wrongdoer, but on behalf of the sovereign, whose interests are opposed to Tubus'. In Standard Oil Co. v. Clark, 163 F. 2d 917 (C.A. 2), cert. den., 333 U.S. 873, the Alien Property Custodian had vested as the property of the German I. G. Farben certain patents, which were the subjects of contracts between Farben and Standard. Because those contracts were illegal under the antitrust laws, a consent decree had enjoined Standard from granting licenses under those patents and from paying royalties to Farben. The Court held, however, that the Custodian could collect the royalties which Farben could not.[2]

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[1] The language of the court is quoted at page 7 in plaintiff's memorandum in support of the motion and on pages 16-17 of defendant's memorandum opposing the motion.

82 Defendant's attempt to explain away this case on the ground that it concerned merely the construction of a consent decree is without merit. Of course, it was not the consent decree which made the contract between Standard Oil and I. G. Farben illegal. The decree specifically struck down as violative of the antitrust laws Standard's obligation to pay royalties to Farben under its anterior agreement with Farben. Nevertheless the Court held that even though Standard was not required, indeed was forbidden, to pay royalties to Farben because of the illegality, Standard was required to pay royalties to the Custodian who had vested Farben's rights and interests.

See also In re Sutherland, 21 F. 2d 667, 670 (W.D. N.Y.), affirmed as modified, 23 F. 2d 595 (C.A. 2), where the Court enforced a seizure by the Custodian of shares of shares of stock claimed to have been the result of an illegal contract.

In this case while the Attorney General has acquired all of Tubus' rights in the 1933 agreement and royalties accrued thereunder as well as the patents which are the subject matter of the agreement (Vesting Order 3369 attached to the complaint), he is not in pari delicto. He was not a party to the 1933 agreement and was not even remotely an actor in that transaction. Moreover, he brings this action to recover the royalties in the interest of the public. He seeks to recover the royalties due in order to pay American creditors of Tubus A. G., if any, under Section 34 of the Trading with the Enemy Act as amended, and to distribute the balance to the War Claims Commission set up under the War Claims Act of 1948, 62 Stat. 1246, 50 U.S.C., App. Sec. 39. A recovery of the royalties by the Attorney General will be in the public interest and will be dedicated to the use of the public
83 under the terms and conditions established by Congress.

To protect the public under such circumstances:

> Courts of equity may, and frequently do, go much further both to give and withhold relief in furtherance of the public interest than they are accustomed to go when only private interests are involved. Virginian R.R. Co. v. System Federation, 300 U.S. 515, 552, cited in the case of Yakus v. United States, 321 U.S. 414, 441.

See also: Rideot v. Mars, 99 Miss., 199, 54 So. 801 (1911).

Moreover, it is well established that even where a party is in pari delicto he may obtain such relief on an illegal contract as will advance public policy. In McCarter v. Fireman's Insurance Co., 74 N.J.E. 372; 73 A. 80, the court said:

> The fiction of acting for the public by which relief is granted to a party in pari delicto must a fortiori apply to the public itself when actually acting in its own interests.

A similar defense of illegality has been rejected in another case where the Attorney General sued to enforce his vesting order under the Trading with the Enemy Act. In Kermath Manufacturing Company v. Herbert Brownell, Jr. (U.S. Law Week 27 L.W. 2634, June 14, 1955, C.A. 6), the defendant below, Kermath Manufacturing Company, resisted the Attorney General's suit to recover funds which prior to vesting had belonged to a Japanese national, on the theory that the obligation arose out of an illegal transaction between the defendant and the Japanese national, Motor Boat Company, Ltd. The court affirmed the judgment below rejecting the defendant's argument and held in favor of the Attorney General. The appellate court termed Kermath's argument "not only novel, but in some respects fantastic". The court stated:

84 We address ourselves to the contention that Motor Boat had no claim because of the illegality of the

transaction and the Attorney General has no basis for his vesting order because he stands in the shoes of Motor Boat. This all-embracing concept is challenged by authoritative text writers and controlling cases. Williston 5, § 1630, Grismore's Law of Contracts, § 290, Corbin on Contracts, §§ 1465, 1466, Gibbs & Sterrett Manufacturing Co. v. Brucher, 111 U.S. 597, 601, Ewell v. Draggs, 108 U.S. 143. The principle seems to be, as said in Grismore, supra, that: "While it is frequently asserted that an illegal bargain is void, meaning thereby, presumably, that the situation is just as if no contract had been made, this is not strictly so. What the courts really have done, in such cases, in the absence of a statute specifying otherwise, is to take the view merely that the judicial machinery is not available for use to one who has participated in an illegal transaction. . . ." Williston in § 1631 entitled the subject matter "Illustrations of Recovery by Innocent Plaintiffs" and states: "And it is for a similar reason that a party who is chargeable with some knowledge of the facts making the transaction illegal, but is not in pari delicto, is allowed recovery of moneys paid or property transferred." The Attorney General was not a party to the fraud practiced upon the Japanese purchaser. The illegality of the transaction through which the fund sought to be recovered by him came to the hands of Kermath, even though available to Kermath, to defeat a claim by Motor Boat is not available to Kermath as against the Attorney General.

Defendant's position here is probably as novel and fantastic as Kermath's. Defendant concedes that the purpose and effect of its agreement with Tubus was "to restrain the commerce of the United States and to give the defendant a monopoly" of certain metal products covered

by that agreement "notwithstanding that such products were not themselves protected by the patents licensed to the defendant under the said contract" (Answer, paragraph 12).

In the face of such illegality and after having been specifically advised thereof by the Custodian on November 27, 1945 (Exhibit A attached to defendant's answer), defendant nevertheless executed contracts with Thompson Products, Inc., and Eaton Manufacturing Company 85 granting them sub-licenses under the patents which Tubus had licensed to defendant in the 1933 agreement. And in these sub-licenses defendant warranted and represented that it was the exclusive licensee under the patents by virtue of its 1933 agreement with Tubus. Defendant will not deny that it received from its sub-licensees more than $96,000 in royalties. Yet defendant now seeks to hide behind the cloak of illegality of its own making and for its own benefit to deprive the Attorney General of some $21,000 in royalties. The courts will look for a reason to reject the "meanly dishonest position" of such a defendant. Missouri Fidelity & Casualty Co. v. Art Metal Construction Co., 242 Fed. 630, 632 (C.A. 8).

The fantasia does not end there. The general policy of the Custodian during the period in question was to grant royalty-free non-exclusive licenses under enemy-vested patents where there were no American interests in the patents (Patents at Work, a Statement of Policy [U.S. A.P.C. 1943] pp. 13-15). Even where an American had an exclusive license under a vested enemy patent under an agreement calling for the payment of royalties, the Custodian gave him the privilege of obtaining a royalty-free license upon giving up his exclusivity (Id. at pp. 17, 18). Defendant in the case at bar, therefore, could have freed itself of its obligation to pay the royalties called for by the 1933 agreement merely by so informing

the Custodian and electing to convert its exclusive license to a non-exclusive one. Defendant did not exercise this choice. Instead it elected to keep its rights and exclusive license under the Tubus agreement thereby preventing the Custodian from throwing open the patents to royalty-free licensing.

86 On all the foregoing, we submit that defendant should not be allowed to keep the fruits of its illegal bargain without assuming any of the burdens. Defendant has already collected more than $96,000 from its sub-licensees. Defendant should not be allowed to keep $21,377.29 of this as a "reward for [its] wrongdoing". Standard Oil Co. v. Clark, 163 F. 2d 917, 932.

II

A Licensee Cannot Assert the Invalidity of the Patent Against the Licensor Except in Cases Where the Licensing Agreement Contains Price Fixing Clauses.

In defendant's second affirmative defense it alleges that Reissue Patent No. 19,474, one of the patents covered by the 1933 agreement, is invalid. But defendant is estopped from urging the invalidity of the patent since it acquired a license under the patent.

The cases which defendant cites in its reply brief at pages 22-23 are not in point. A licensee is still estopped to deny the validity of the patent unless the agreement provides for price fixing, which is not the case here. Automatic Radio Mfg. Co., Inc. v. Hazeltine Research, Inc., 339 U.S. 827 aff'g. 176 F. 2d 799 (C.A. 1).

As stated in Hall Laboratories, Inc. v. National Aluminate Corp., D.C. Del. 120 Fed. Supp. 684, 695:

> Any doubt which may have existed as to whether a licensee is in fact estopped to contest validity, has been completely resolved by the recent cases re-affirming the estoppel doctrine. Automatic Radio Mfg.

Co. v. Hazeltine, 339 U.S. 827, 836; 70 S. Ct. 894, 94 L. Ed. 1312; Atlas Imperial Diesel Engine Co. v. Lanova Corp., D.C. Del. 79 F. Supp., 1002; . . .

CONCLUSION

For the reasons stated in plaintiff's memorandum
87 and this reply to defendant's memorandum, the court should grant plaintiff's motion to strike defendant's affirmative defenses.

Respectfully submitted,
/s/ Dallas S. Townsend
Dallas S. Townsend
Assistant Attorney General
/s/ Robert E. Tieken
Robert E. Tieken
United States District Attorney
Northern District of Illinois
/s/ James D. Hill
James D. Hill
/s/ Walter T. Nolte
Walter T. Nolte
/s/ Samuel Z. Gordon
Samuel Z. Gordon
/s/ Stephen Schalasny
Stephen Schalasny

Received a copy of the foregoing reply memorandum this 26th day of July, 1955.

/s/ Vincent O'Brien
Attorney for the Defendant

88 DEFENDANT'S REPLY MEMORANDUM IN OPPOSITION TO PLAINTIFF'S MOTION TO STRIKE DEFENDANT'S AFFIRMATIVE DEFENSES

(Filed Sep 19 1955)

May It Please The Court:

FIRST AFFIRMATIVE DEFENSE

Plaintiff's Reply Brief begins with a "brief resume of additional facts" in which he refers to many matters neither alleged in the pleadings, nor mentioned in the initial brief. By this "resume" plaintiff seeks to convince the Court that Defendant's first affirmative defense—which he has been unable to meet on legal grounds—is a "meanly dishonest position". (Reply Br., p. 8).

Under these circumstances the defendant believes that it should present to the Court, in some detail, the factual background of this proceeding; for the facts of this
89 case (set forth below as concisely as possible) show conclusively that if any party to this cause is taking an unfair position, it is the plaintiff.

In 1933 La Salle entered into a license agreement with Tubus, A. G., of Zurich, Switzerland. As to certain extruded products, the license was exclusive; as to all other products, non-exclusive. La Salle was granted the power to sub-license as to products covered by the exclusive license.

Under Section 4 of the agreement La Salle was to pay a royalty, at the rate of $1.25 a ton, on all products produced under the exclusive license. La Salle paid Tubus 50,000 Swiss francs ($13,750 at the then rate of exchange) as advance royalties.

Only the exclusive license, and the dependent right to sub-license, were of value. La Salle itself never produced under either the exclusive or the non-exclusive license granted by the agreement.

In 1936 La Salle entered into a sub-license agreement with the Wilcox-Rich Corporation. As sub-licensee Wilcox-Rich was to pay royalties of $10 a ton. The agreement also provided that Wilcox-Rich would be free to contest the validity of the patents covered by the sub-license if La Salle failed to bring (and prosecute with due diligence) an infringement action within 90 days of the date on which it was notified of an infringement of the patents covered by the sub-license.

90 The 1936 sub-license agreement was profitable. By the fall of 1945, Wilcox-Rich and its successor, Eaton Manufacturing, had paid some $55,000.00, and royalties were continuing to accrue at the rate of $15,000 a year.

During 1945 Thompson Products, a major competitor of Eaton Manufacturing, began to infringe Reissue Patent No. 19,474, the principal patent covered by the sub-license agreement. In due course Eaton notified La Salle of this infringement.

La Salle decided to sue Thompson for infringement, and requested the Alien Property Custodian, who in 1944 had seized both the rights of Tubus under the 1933 agreement and the patents therein licensed, to join in the action. Although Section 14 of the 1933 agreement obligated the Custodian to prosecute infringers such as Thompson, La Salle was willing to bear all of the expense of the proceeding. It asked only that the Custodian, as owner of the infringed Patent, join in the suit as a nominal party plaintiff.

The Custodian, through his general Counsel, replied that he would not join in the suit, that in the opinion of the Department of Justice the 1933 agreement between La Salle and Tubus was illegal, and that should La Salle institute an infringement suit the Custodian would intervene for the purpose of having La Salle's exclusive license declared invalid. (Counterclaim, Exhibit A)

91 La Salle's patent counsel, after being advised of the Custodian's position, recommended that the proposed infringement suit be dropped. In his opinion it was sufficiently problematical whether Reissue Patent No. 19,474 was valid. The presence of the Department of Justice as an additional party opponent made the prospects of ultimate success too questionable to warrant the very substantial expense of such an action. He further recommended that La Salle, in order to salvage something from its investment in the 1933 agreement, take whatever it could obtain through negotiations with Thompson.

It soon became necessary for La Salle to enter into similar negotiations with Eaton. Upon La Salle's failure to sue Thompson for infringement, Eaton terminated the 1936 sub-license agreement and asserted its right, under Section 11 of that agreement, to contest the validity of the patents covered by La Salle's exclusive license. Specifically, Eaton, and Thompson also, refused to pay royalties on the ground that Reissue Patent No. 19,474, the only applicable patent, was invalid for want of invention.

After two years of negotiation, La Salle, on February 1, 1948, entered into sub-license agreements with Eaton and Thompson. Both "sub-licenses" related solely to Reissue Patent No. 19,474, and were essentially releases of La Salle's rights under that Patent. The principal provisions of each were as follows:

92 1. As to the period prior to October 1, 1947 La Salle released all claims for infringement. In the case of Eaton, La Salle also released its claims under the 1936 agreement.

2. As to the period October 1, 1947 to January 3, 1950 (the expiration date of Reissue Patent No. 19,474), La Salle was to receive royalties at the rate of $8,500 a year. In form each agreement provided for royalties of $10 a ton, with an annual ceiling of $8,-

500. However, since the production of each "sub-licensee" was then, and for many years had been, in excess of 850 tons a year, the $8,500 figure was at once both a maximum and minimum royalty.

La Salle received approximately $19,000 under each of these agreements, or an aggregate of about $38,000*. This was less than half of the amount which La Salle would otherwise have received from Eaton alone, during the years 1946-1949, had the 1936 agreement remained in force. As a practical matter, therefore, the legal position which the plaintiff took with regard to the 1933 agreement—that it was illegal and that the exclusive license was accordingly invalid and unenforceable—was very harmful to La Salle.

93 Now La Salle's First Affirmative Defense isn't something pulled out of a hat at the last moment. It is, essentially, merely the application, against the plaintiff, of the very legal proposition which he so asserted, in 1945 and subsequently, against La Salle. That is to say, this defense simply turns back upon the plaintiff the very legal weapon with which he has in the past inflicted substantial monetary loss upon La Salle.

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* La Salle received a total of $93,952.97 from Thompson & Eaton. (The Statement, on p. 2 of Plaintiff's Reply Brief, that La Salle collected $96,652.80 is incorrect). Of this sum $55,355.66 was paid by Eaton (Wilcox-Rich) during the years 1937-1945 pursuant to the 1936 agreement, $38,597.31 ($19,425.09 by Eaton; $19,172.22 by Thompson) was paid under the agreements of February 1, 1948.

It should be noted that the production on which La Salle actually received royalties (5,535 tons under the 1936 agreement; 3859 tons under the 1948 agreements) is substantially less than the tonage (c. 11,000 tons) upon which La Salle paid advance royalties in 1933. The Custodian's claim is based solely on production by Thompson & Eaton in excess of the 850 tons a year on which they paid royalties under the 1948 agreements. And it was the Custodian who was responsible for La Salle's inability to collect royalties on this additional production.

The 1933 agreement granted La Salle an exclusive license. It also provided for a royalty to Tubus on products covered by the exclusive license. La Salle did not promise to make royalty payments because it liked Tubus, or because it wanted to do a charitable deed. La Salle promised to make such payments in exchange for an exclusive license, and for no other reason.

There is no question but that if an exclusive license agreement is illegal so that the exclusive license is invalid and unenforceable, the royalty provisions likewise fall. To rule otherwise would be to make an entirely new contract, one never agreed to by the parties, under which one of them would have no rights or benefits—only obligations.

The Plaintiff has consistently contended that the exclusive license created by the 1933 agreement was invalid and unenforceable. In 1945 he so advised La Salle, adding that if La Salle ever tried to enforce the exclusive license he would intervene against it. Moreover, since no statute intervened between 1933 and 1945, it was implicit in
94 plaintiff's position that the exclusive license never had been valid or enforceable.

The plaintiff has never abandoned this position. He does not do so now. In fact he can't, for to do so would conflict with the well-established views of the antitrust division. On this point, the defendant is in full agreement with the plaintiff. As we pointed out in our initial memorandum, there is now no question but that the 1933 agreement, and consequently the exclusive license, were at all times illegal and unenforceable. (Def. Mem. pp. 4-6).

It follows that the plaintiff has no cause of action against La Salle for royalties. La Salle is not liable under the 1933 agreement except as an exclusive licensee. La Salle never produced an ounce of material under any of the patents covered by that agreement. The plaintiff seeks recovery solely on the basis of production by other

persons—Thompson and Eaton—and it is only as an exclusive licensee that La Salle could be held liable for royalties on goods produced by someone else. And as shown above, where the exclusive license fails for want of legality so also fails any royalty obligation of the licensee which exists only by reason of the exclusive license.

It also follows that the plaintiff's reliance upon the payments made by Thompson and Eaton is ill-founded. The exclusive license having been invalid and unenforceable, it is possible that Thompson and Eaton were ill-
95 advised to have paid La Salle anything; but the fact that they made such payments avails the plaintiff nothing. The payments might give Thompson and Eaton a cause of action against La Salle. Whether they do so or not is uncertain. One thing is clear, however, they do not give the plaintiff any claim against La Salle.

Similarly unfounded is plaintiff's contention (Reply Br. p. 8) that La Salle prevented him from throwing open the patents to royalty-free licensing. As the plaintiff so forcefully pointed out to La Salle in 1945, its exclusive license was illegal and unenforceable. Under these circumstances there was nothing to prevent the plaintiff from announcing to the public that royalty-free non-exclusive licenses were available for all the patents covered by the 1933 agreement. Plaintiff may not now complain against La Salle if his own lassitude deprived numerous unknown third persons of the somewhat questionable advantages of the patents in question.

Standard Oil v. Clark

To some extent in his original brief, but to a far greater degree in his reply brief, the plaintiff has relied upon the case of Standard Oil v. Clark, 163 F. 2d 917, 932 (2d Cir. 1947). Plaintiff cites this case for the proposition that the Custodian, as successor to the interests and rights of an enemy alien, can enforce an illegal patent license agree-

ment, and collect royalties thereunder, even though the enemy alien could not have done so. To achieve this
96 result, plaintiff has grossly misrepresented both the facts and the holding of the Court. We believe that the following statement of the Standard Oil case—necessarily rather long because of the complicated factual situation—will demonstrate that the decision affords no support whatsoever for the Plaintiff's claims and contentions.

In 1929 the Standard Oil Company of New Jersey entered into a series of agreements with I. G. Farbenindustrie of Frankfort am Main, German: These agreements, which related to certain I. G. inventions, provided for the formation of a company known as S. I. G. (Standard I. G. Company), and for the conveyance or licensing of the so-called Class A and Class B S.I.G. patents. As consideration for this transaction, Standard paid I. G. over $35 million in stock and cash.

S.I.G. was owned one-fifth by I. G. and four-fifths by Standard. Its earnings were restricted to $11,000 a year, and it was forbidden to engage in manufacturing operations. I. G. agreed to assign to S. I. G. the legal title to the Class A patents, and to give it licensing rights (but not legal title) to the Class B patents. The Class A S. I. G. patents related principally to the Hydrocarbon Field; the Class B patents, although useful in that field, were important in other fields as well. S. I. G. was to exploit both classes of patents by granting licenses. The royalties de-
rived from such licenses were to be divided roughly
97 one-fifth to I. G. and four-fifths to Standard.

As to both the Class and and the Class B. S.I.G. patents, I.G. retained various rights. These included licenses and the right, referred to above, to approximately one-fifth of any royalties received by S.I.G. In subsequent judicial proceedings, these rights were classified as equitable interest or servitudes. Standard Oil Co. v. Markham,

64 F. Supp. 656, 666 (S.D.N.Y. 1945) (opinion by Wyzanski, D.J.). With respect to the Class B patents, I.G. also retained legal title.

In September, 1939, I.G. sold its stock in S.I.G. to Standard. In an unrelated, although contemporaneous, transaction I.G. also conveyed its interest in the various S.I.G. patents to Standard and its subsidiaries. In 1942 the Alien Property Custodian seized the "interest" of I.G. in S.I.G. and in the Class A and Class B S.I.G. patents. Subsequently, the Custodian, by a Supplemental Vesting Order, seized full ownership, both legal and equitable, of all the Class A and Class B S.I.G. patents. He also specifically claimed, in this Supplemental Order, full ownership of the 200 shares of S.I.G. stock (a one-fifth interest) originally held by I.G.

After the Custodian had seized the interest of I.G. in S.I.G. and in the S.I.G. patents, the Justice Department brought an anti-trust suit against Standard and certain of its subsidiaries. The Custodian filed an appearance and became a party to this suit. United States v.
98 Standard Oil Co. (New Jersey) et al., CCH Tr. Reg. Reports Supp. 1941-1943 52,768 (D.N.J. 1942). The suit was settled by the entry of a consent decree, to which decree the Custodian specifically consented and agreed. Article IV of the decree provided that (1) the defendants were to transfer to S.I.G. all their right, title and interest in the Class A and Class B S.I.G. patents; and (2) S.I.G. was to issue licenses, unrestricted as to use or field, to all applicants, royalty-free for the duration of the war emergency and subject thereafter to royalty terms supervised by the Attorney General and controlled by the New Jersey District Court.

Article III of the decree adjudged that with certain immaterial exceptions, all arrangements between Standard and I.G. were unlawful, and Article V (3) prohibited the

defendants from "accounting to I.G. in respect of receipts . . . from any agreement declared illegal". Article XII obligated the Custodian "to execute such further transfers of property to S.I.G. . . . as may be necessary to carry out the provisions of the decree, including the provisions of the decree limiting or prohibiting royalties under those patents and providing for compulsory licensing under them."

In 1944, some two years after the entry of the consent decree, Standard sued the Alien Property Custodian to recover the S.I.G. patents as well as the 200 shares of S.I.G. stock originally owned by I.G. The basis for 99 this action was that Standard was the owner of the assets in question and that accordingly the seizure of them by the Custodian had been unlawful.

The Trial Court ruling was unqualifiedly in favor of Standard with respect to the S.I.G. stock. He held that there had been a bona fide sale of I.G.'s 200 shares to Standard before the outbreak of war between the United States and Germany, and that there was accordingly no basis for seizure by the Custodian. Standard Oil Co. (New Jersey) v. Markham, 64 F. Supp. 656,664 (S.D.N.Y. 1945).

The Trial Court's decision with respect to the S.I.G. was more complex. He first held that the 1939 conveyance of I.G.'s interest in those patents to Standard had been a sham and was therefore ineffectual as against the Custodian, and that the Custodian had therefore properly acquired, by its initial seizure order, legal title to the Class B S.I.G. patents and various equitable interests and servitudes, amounting to virtual one-fifth equitable ownership, in both the Class A and Class B S.I.G. patents. The Trial Court concluded, however, that the consent decree in effect had destroyed this equitable interest of the Custodian in the S.I.G. patents. In reaching this result, the

court relied upon the provisions of the decree requiring the transfer of the S.I.G. patents to S.I.G. (Article IV), the prohibition on "accounting to I.G." (Article V(3)), and the requirement that the Custodian execute such transfers as might be necessary to carry out the provisions relating to compulsory licensing of the S.I.G.
100 patents (Article XII). 64 F. Supp. 664-669.

The Court of Appeals affirmed the judgment of the Trial Court as to the S.I.G. stock. It reversed, however, with regard to the Custodian's equitable interest in the S.I.G. patents. The Court of Appeals held that it had not been the intention of the parties to the consent decree, or of the court which entered it, that the provision prohibiting "accounting" to I.G. (which was not a party to the suit) should also prohibit payments to the Custodian (who was a party) and should thereby destroy the Custodian's partial equitable ownership of valuable patents. Standard Oil Co. v. Clark, 163 F. 2d 917, 927, 930-932 (2d Cir. 1947). The Court's opinion on this question is set forth in full at pages 16-17 of the defendant's initial memorandum.*

In considering the scope, and implications, of the Court of Appeals decision certain factors must be kept in mind:

1. The suit was not an action by the Custodian to recover royalties from Standard under an illegal patent license agreement. It was, instead, a suit by Standard to recover property, including patents, seized by the Custodian. During the course of this
101 suit it became necessary, in order to determine the property interests recoverable by Standard, to ascertain the extent of the Custodian's equitable interest in those patents.

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* The portion of the Court's opinion so quoted includes the sentence, wrenched out of context, upon which the plaintiff relies. See Pl. Brief p. 7.

2. The Court of Appeals decision did not relate, in any way, to the collection, from Standard, of royalties for the period prior to the consent decree—i.e., the period during which the "illegal" arrangements between I.G. and Standard were in effect. It was concerned instead with the question whether the Custodian might share, as a one-fifth equitable owner of certain patents (of which it had been originally the sole owner), in the royalties which might be realized, after the termination of the war emergency, from the compulsory licensing, pursuant to the decree, of the patents in question at rates, and on terms, approved by the New Jersey District Court and the Department of Justice.

3. The interest which the Custodian retained in those patents under the consent decree, as that decree was construed by the Court of Appeals, was no greater than the interest which I.G. could have retained had there been no seizure and had it (rather than the Custodian) participated in the anti-trust proceedings.

102 If a patent license agreement violates the antitrust laws, it cannot be enforced. Park-In Theatres, Inc. v. Paramount-Richards Theatres, Inc. 81 F. Supp. 466 (D. Del. 1948) 90 F. Supp. 736, 735 (1950), aff'd on opinions below, 185 F. 2d 407, 408 (3d Cir. 1950). Neither may the owner recover for infringement from anyone, even those not parties to the agreement, for the period during which it was in effect. National Lockwasher Co. v. George K. Garrett Co., 137 F. 2d 255, 257 (3d Cir. 1943). And, of course, a court, in an antitrust proceeding, can compel the cancellation of the illegal agreement. If necessary, in order to "root out" a conspiracy, the court can even order compulsory licensing of the patent or patents in question. On the other hand, use of a patent in violation of the

antitrust laws does not warrant confiscation of it. Consequently, a court cannot compel compulsory licensing on a royalty-free basis. Hartford-Empire Co. v. United States, 323 U.S. 386, 415-417 (1945).

Thus, if I.G. (rather than the Custodian) had been a party to the antitrust proceedings it could have insisted that any compulsory licensing of the S.I.G. patents provide for reasonable royalties and that I.G. receive a share of those royalties equal to the
103 equitable interest which it had retained in the S.I.G. patents.

4. The Court of Appeals decision, by its own terms, involved no more than a construction of the consent decree. The Court merely decided that in view of the circumstances surrounding the entry of the decree, and the language of the decree itself, a prohibition against accounting to I.G. did not apply to the Custodian (who was a party to the decree and was specifically mentioned by name therein) so as to destroy the equitable interest of the Custodian in certain patents or his right to a share of the royalties which might be derived from them. There is nothing in the Court's opinion to indicate that the Custodian was entitled, as a matter of law, to a more favored position than the one to which I.G. would have been entitled had there been no seizure.

From the foregoing, it is clear that the decision in Standard Oil v. Clark is not in point. Neither by its terms nor by implication from its holding, does the case support plaintiff's contention that the Custodian, by the seizure of the interest of an enemy alien, thereby acquires greater rights than the alien possessed.

Kermath Mfg. Co. v. Brownell

The plaintiff also relies heavily upon Kermath Mfg. Co. v. Brownell, 222 F. 2d 577, decided by the Court of
104 Appeals for the Sixth Circuit on June 7.

In order for plaintiff even to cite the Kermath decision as authority in the case at bar, it was necessary that he ignore this crucial distinction—the Kermath case involved a proceeding to enforce a summary turnover directive issued subsequent to a "res" vesting order; that action now before this Court involves an action to enforce the right and interest, if any, which the Custodian acquired pursuant to a "right, title and interest" vesting order. The two procedures are vastly different, particularly with regard to the defenses which may be interposed.

The Trading with the Enemy Act affords the Alien Property Custodian two very different procedures by which to reduce to possession the property and claims of enemy aliens. These procedures are as follows:

1. Res vesting order: Under this procedure the Custodian first issues an order under Section 5(b) of the Act (50 U.S.C. App. §5(b)) vesting himself with specified property—the "res". This "res" may be a particular piece of property—a car, a patent, a share of stock. It may also be a bank account or a money claim of any kind. McGrath v. Manufacturers Trust Co., 338 U.S. 241, 246-247 (1949). The Custodian then issues a "Turnover Directive" under Sec-
105 tion 7(c) directing that possession of the property or money in question be turned over to him. If the Directive is not obeyed, the Custodian may then petition a court, pursuant to Section 17, for summary enforcement of it. In such a proceeding the defendant has, by and large, no defense other than that he is not in possession of the property or fund which is sought. His only remedy is to obey the order—i.e., turn the property or fund over to the Custodian—and then commence a proceeding, under Section 9(a) of the Act, to recover it.

2. Right, title and interest vesting order: Under this procedure, the Custodian first issues an order vesting in himself simply the "right, title and interest" of the enemy alien in and to the property or fund in question. The Custodian may then bring an action to enforce the right, title or interest so acquired. In such a proceeding the Custodian has no greater rights than the alien enemy possessed, and any substantive defense available against the alien enemy may be asserted against the Custodian. See cases cited on pp. 8-9 of the defendant's initial memorandum.

Perhaps the best statement of the difference between these procedures is that contained in Bishop, Judicial Construction of the Trading with The Enemy Act, 62
106 Harv. L. Rev. 721, 733-734 (1949):

"So, far, we have considered only the most summary type of exercise of the Custodian's vesting power—a demand for specific property, which may take the form of a 'res-vesting order', or a turnover directive,' issued subsequent to an order vesting right, title, and interest. When the Custodian issues such an order, it means that he has determined that a particular thing is enemy property; and for the purposes of immediate possession of that thing his determination is conclusive, 'whether right or wrong' subject only to the qualifications indicated in the preceding paragraphs. The practical effect of this is that the Custodian has the use of the property during the interim between his administrative determination of its enemy character and ultimate judicial review of the correctness of that determination, every argument about the existence or extent of enemy interest in the property being deferred until suit is brought against the Custodian under Section 9(a) of the Act.

"Where, however, there is no urgent need for an immediate transfer of possession, the Custodian

usually follows a course calculated to minimize the dislocation of local judicial proceedings and business, vesting in himself simply the 'right, title and interest' of the enemy in and to the property. Under such an order, if there be any controversy concerning the nature or extent of the enemy's interest in the property, the Custodian finds himself in much the same position that the enemy himself would have occupied—he is a litigant. As such, he participates in numbers of lawsuits differing widely from those ordinarily engaged in by the Federal Government, for they may and often do turn on questions of chemically pure state law. The Custodian, unsupported by his hypothetical sergeant and file, has about the same rights and duties as any other suitor."

In brief, therefore, if the Custodian proceeds by means of a res vesting order, the interest or defense of the defendant must be asserted in a separate proceeding brought pursuant to Section 9(a). It may not be asserted in the summary proceeding brought to enforce the order. On the other hand, if the Custodian proceeds by means of
107 a right, title and interest vesting order, the defendant may assert his interest or defense in any suit brought by the Custodian to enforce such right, title or interest as he may have acquired by the order.

With regard to the defense of illegality which is at issue in this case, perhaps the best example of the difference between these procedures is In Re Sutherland, 21 F. 2d 667, 671 (W.D.N.Y. 1927), affirmed as modified, 23 F. 2d 595 (2d Cir. 1928), cited by plaintiff on page 5 of his Reply Brief.

In that case the Custodian (Sutherland) sought to obtain enforcement of an order for possession of certain shares of Eastman Kodak stock which were owned of record by a German company. Eastman defended on the

ground that the shares in question had been issued pursuant to, and subject to the terms of, an agreement between Eastman and the German company, that the certificates for the shares were stamped with a notation to that effect, and that the agreement in question was illegal under the antitrust laws. The Court ruled that such a defense was unavailable in that proceeding. Said the Court (21 F. 2d 671):

> "We must not lose sight of the specific nature of the proceeding which, as pointed out, is to obtain possession (not title) of enemy alien stock after seizure and demand, payment of dividends, cancellation of old certificates, and the issuance of new ones without, however, conferring any greater rights in the corporation than are conferred by the original issue. Compliance with the demands in that relation does not, in my opinion, create a new stockholder whose rights cannot be disputed, in a proper action, in the future, because of the illegality of the stock issue."

108 Thus, seizure by the Custodian did not destroy the defense of illegality, as the plaintiff is now contending. That defense was still available to the defendant. The Court merely held that it was not available in a proceeding to enforce a res vesting order. On the other hand, it would appear clear from the language of the opinion that such a defense could have been asserted had there been merely a vesting of the enemy alien's interest, rather than the stock itself, and a suit to enforce the interest so seized.

In the Kermath case there was a res vesting order, and the proceeding was a summary one to enforce it. The Court of Appeals merely held that where the defendant previously had acknowledged to the Custodian that it was indebted to the enemy alien in the amount of $61,000

and where the allegedly illegal arrangement giving rise to the fund was not a void transaction, the defendant could not interpose the defense of illegality in a summary proceeding to obtain possession of the fund. In this connection, it should be noted that the last paragraph of the opinion specifically refers to the right of the defendant to bring an action under Section 9(a) to recover the seized property.

In the case at bar, on the other hand, there was no such order. The plaintiff merely seized the "interests and rights" of Tubus under the 1933 agreement. He is now suing, as owner of the "interest and rights" of Tubus under the 1933 agreement, to enforce that agreement.
109 As we demonstrated in our initial memorandum (pp. 8-9), under these circumstances the plaintiff possesses no greater rights than Tubus possessed. If Tubus could not have enforced the agreement neither can the plaintiff. In this connection, the Court will surely note the abject failure of the plaintiff to answer or distinguish the numerous authorities cited by the defendant on this point.

The Kermath case is also distinguishable on yet another ground. The fund which was at issue in that case had been derived from funds transmitted to the defendant for the account of the enemy alien. That is to say, apart from the question of illegality, the enemy alien would have had a claim on quasi contractual grounds, for the recovery of the money.

Now the general propositions to which the Court of Appeals referred in the Kermath case, and to which plaintiff refers in both his initial and his reply briefs, relating to recovery by a party who was not in pari delicto, are not that such a party may enforce the agreement itself. They are, instead, that he may recover back property and money transferred or paid by him in connection with the transaction. That is to say, the recovery of the party not

in pari delicto is always quasi contractual in nature as distinguished from a judgment enforcing the illegal agreement as such. See 6 Williston, Contracts §1789; 2 Restatement, Contracts §604; 12 Am. Jur., pp. 734-735, Contracts §217; 19 Am. Jur., pp. 330-332, Equity §478.

110 In the case at bar, the plaintiff has no possible quasi contractual claim against La Salle. La Salle is not in possession of any money or property derived from the plaintiff or from any person through whom plaintiff claims. La Salle has not itself produced or operated under any patent or patents owned by the plaintiff. Indeed, the only persons against which the Plaintiff might have a cause of action, on a quasi contractual basis, are Thompson and Eaton. They at least produced under patents now owned by the plaintiff.

This is not to concede that there is any merit whatsoever to plaintiff's contention that he is not in pari delicto. We demonstrated in our initial memorandum that his argument in this connection is totally fallacious. (Defendant's Memorandum, pp. 19-21) Here too plaintiff has not even tried to answer our memorandum. All he can do is repeat a few unsupported passages from his initial brief.

Also resurrected in the reply brief is plaintiff's novel public policy argument—plaintiff should recover because he will do such "good" things with the money if he gets it. As pointed out in our initial memorandum (pp. 18-19), this contention borders on the absurd.

SECOND AFFIRMATIVE DEFENSE

The plaintiff's reply brief has narrowed considerably the issues with regard to La Salle's Second Affirma-
111 tive Defense. The sole question remaining is whether the rule of Sola Electric Co. *v.* Jefferson Electric Co., 317 U. S. 173 (1942), is limited to license agreements which contain price-fixing provisions or whether it ex-

tends to any license agreement which contains provisions which would be illegal under the antitrust laws in the absence of a valid patent.

This issue can best be resolved by a reference to the Supreme Court's opinion in that case (317 U.S. 175-177):

> "The present license contract contemplates and requires that petitioner, on sales of the licensed transformers throughout the United States, shall conform to the prices fixed by respondent for the sale of competing patented articles by other licensees and by respondent. Such a restriction on the price of articles entering interstate commerce is a violation of the Sherman Act save only as it is within the protection of a lawfully granted patent monopoly. See United States *v.* Univis Lens Co., 316 U.S. 241, 250, 62 S. Ct. 1088, 1093, 86 L. Ed. 1408, and cases cited; United States *v.* Masonite Corp., 316 U.S. 265, 275, 277, 62 S. Ct. 1070, 1076, 1077, 86 L. Ed. 1461. Agreements fixing the competitive sales price of articles moving interstate, not within the protection of a patent, are unlawful because prohibited by the Sherman Act.
>
> "It is familiar doctrine that the prohibition of a federal statute may not be set at naught, or its benefits denied, by state statutes or state common law rules. In such a case our decision is not controlled by Erie Railroad v. Tompkins, 304 U.S. 64, 58 Ct. 817, 82 L. Ed. 1188, 114 A.L.R. 1487.
>
> 112 "Local rules of estoppel which would fasten upon the public as well as the petitioner the burden of an agreement in violation of the Sherman Act must yield to the Act's declaration that such agreements are unlawful, and to the public policy of the Act which in the public interest precludes the enforcement of such unlawful agreements. Cf. Morton Salt Co. *v.* G. S. Suniger Co., 314 U.S. 488, 492, 493, 62 S.Ct. 402, 405, 86 L. Ed. 363."

From the foregoing, it is plain that the reasoning of the Court was as follows:

1. A price-fixing agreement not within the protection of a patent, is invalid.

2. Consequently, a patent license agreement which contains price-fixing provisions is unlawful under the antitrust laws unless the patent is valid.

3. If a party to a license agreement which contains such provisions is estopped to prove that the patent is invalid, he is, necessarily, likewise barred from proving that the agreement is unlawful under the antitrust laws.

4. A rule of estoppel will not be permitted to protect an agreement which violates the antitrust laws.

Thus, although the decision in the Sola case related to a contract containing price-fixing provisions, the rule laid down by the Court applies to any license agreement containing provisions which would be invalid, under the antitrust laws, were the patent invalid. There is nothing in the Court's opinion to indicate that the rule is limited to agreements with price fixing provisions. Indeed, the logic of the Court's position precludes any such limitation.

113 The cases cited by the plaintiff in his reply brief do not affect this conclusion. None of them involved a license agreement which would have been unlawful had the licensed patent been invalid. They merely hold that the Sola decision did not invalidate the entire doctrine that a licensee is generally estopped to contest the validity of the patent so as to permit every licensee to challenge the validity of every licensed patent. None of them holds, as plaintiff contends, that the Sola doctrine is limited to license agreements which contain price-fixing provisions.

CONCLUSION.

For the reason stated in defendant's initial memorandum, and in this reply memorandum, the Court should deny the plaintiff's motion to strike the defendant's affirmative defenses.

114

114 PLAINTIFF'S ANSWER TO DEFENDANT'S REPLY MEMORANDUM

(Filed Oct 7 1955)

1. The defense of illegality is without merit and should be stricken.

Defendant admits that it has received a total of $93,952.97 from the use of the vested patents, or one of them, by sub-licensing them to various sub-licensees. Of this sum, defendant admits that it received $38,597.31 after November 27, 1945 when the Custodian advised that the underlying agreement of December 2, 1933 was illegal for violation of the antitrust laws. Nevertheless, in the face of such advice, defendant proceeded to grant sub-licenses under at least one of the vested patents and defendant warranted and represented to its sub-licensees that it was the exclusive licensee with the right to grant sub-licenses. Although defendant concedes it has received a total of $93,452.97 by sub-licensing the patents in suit it now refuses to pay over to plaintiff the sum of $21,377.29 which it promises to pay in the 1933 agreement on the ground that the agreement violated the antitrust laws. We submit
115 that if there ever was a case for denying a wrongdoer some of the fruits of his wrongdoing and preventing his unjust enrichment, this is such a case.

Defendant is at great pains to seek to explain away Standard Oil *v.* Clark, 163 F. 2d 915 (C.A. 2) cert. denied 333 U.S. 873 and Kermath Mfg. Co. *v.* Brownell, 222 F. 2d 577 (C.A. 6) relied upon by plaintiff in his earlier briefs.

We believe that these cases are persuasive authority for the proposition that the Custodian may recover monies due under an illegal agreement even though the enemy, whose rights and interests the Custodian has vested, would be barred from such a recovery.

In Standard Oil the Custodian had seized, among other things, I. G. Farben's rights and interests in the S.I.G. Class A and B patents and royalties stemming from an agreement (the "Four-Party" agreement) executed in 1929 by the German I. G. Farben and the Jersey group consisting of the Standard Oil Company and three related companies. That agreement was specifically held to be illegal as violative of the antitrust laws in a consent decree entered on March 25, 1942. The consent decree specifically enjoined Standard Oil and the other three companies from performing any of the provisions of the Four-Party agreement, including the payment of royalties otherwise due under the agreement to I. G. Farben. The Court of Appeals nevertheless held that the Custodian was entitled to recover such royalties stating, "While he is formally successor to I. G.'s rights, he is obviously in a different situation from the ordinary assignee for value; for he is the agent of a government seeking the destruction of I. G.'s power in America." (at p. 932).

116 Defendant is plainly wrong in stating:

> The Court of Appeals decision did not relate, in any way, to the collection, from Standard, of royalties for the period prior to the consent decree—i.e., the period during which the "illegal" arrangements between I.G. and Standard were in effect. (p. 14, defendant's reply memorandum)

For the final decree of the District Court entered upon the mandate of the Court of Appeals expressly provides that defendants must pay to the Custodian royalties that had accrued under the Four-Party agreement and other agree-

ments prior to the entry of the consent decree as well as royalties accruing thereafter. See Secs. 9(a), 9(b) and 9(c) of the final decree, a copy of which is proffered herewith.

So too, defendant's attempt to explain away the Kermath case is to no avail. Defendant seeks to distinguish this case as merely holding that in a summary possessory action to enforce a res vesting order and turnover directive, the defense of illegality may not be interposed. If this is all that was intended to be decided by the Sixth Circuit there would be no reason for the court's language which we have quoted at page 7 of our reply memorandum. The Sixth Circuit specifically stated (pp. 579-580), "We address ourselves to the contention that Motor Boat had no claim because of the illegality of the transaction and that the Attorney General has no basis for his vesting order because he stands in the shoes of Motor Boat." since the Attorney General was not in pari delicto,

> "The illegality of the transaction through which the 117 fund sought to be recovered by him came to the hands of Kermath, even though available to Kermath, to defeat a claim by Motor Boat is not available to Kermath as against the Attorney General." (p. 580)

Thus, even if defendant may be heard to assert the defense of illegality in this proceeding we have shown that this defense is without merit and should be stricken as a matter of law.

Moreover, defendant here concedes that if the Attorney General had res vested the property in suit and had brought a proceeding under Section 17 of the Trading with the Enemy Act (50 U.S.C.A. App. Sec. 17) for enforcement of his vesting order then defendant would be barred from interposing in such a proceeding the defense of illegality (and invalidity of the patents). Defendant ad-

mits that in such a proceeding it would be required forthwith to turn the property over to the Custodian and could raise the defenses of illegality and invalidity only in a suit brought by it under Section 9(a) of the Act for a return of the property (defendant's reply memorandum pp. 17-19). We submit that plaintiff has effected a res vesting of the property and that this is a summary suit for compliance with his vesting order.

The vesting order in suit, Vesting Order No. 3369 (a copy of which is annexed to the Complaint), is both a res vesting and a "right, title and interest" vesting. The vesting order vests the properties described in Exhibit A attached to the order. Exhibit A, paragraph (a) res vests the patents which are the subject of this suit since it vests "all right, title and interest . . . in and to the patents", not merely the rights and interests of specified persons in the patents. Paragraph (b) of Exhibit A is a right, title and interest vesting since it vests "all interests and rights . . . created in Tubus A.G. by virtue of an agreement dated December 2, 1933." While paragraph 118 (b) does not define the quantum of Tubus' rights and interests and the amount of royalties which were vested, the demand of February 21, 1952 served upon defendant (Complaint, paragraph 19) does contain such a definition. This demand (a photostatic copy of which is proffered herewith) determined that the amount of royalties due and unpaid under the agreement of December 2, 1933 which had been vested was $21,377.29 and written demand was made upon defendant to remit this sum to the Attorney General. The Trading with the Enemy Act does not prescribe any particular language or method to be used by the Custodian in exercising his seizure powers under Secs. 5(b) or 7(c) of the Act. The Custodian has captured property by a vesting order (Markham *v.* Cabell, 326 U.S. 404), a turnover directive (Zittman *v.* McGrath,

341 U.S. 471), or a "demand" (Great Northern Ry. *v.* Sutherland, 273 U.S. 182; In Re Sutherland, 23 F. 2d 595 [C.A. 2]; Miller *v.* Rouse, 276 F. 715 [S.D. N.Y.]). Thus, Vesting Order No. 3369 as supplemented and complemented by the demand of February 21, 1952 res vested the sum of $21,377.29 as effectively as if that sum had been stated in the vesting order itself.

This suit may therefore be properly regarded as a proceeding for summary enforcement of the Custodian's seizure of $21,377.29. This court has jurisdiction under Section 17 of the Act, which plaintiff has invoked (Complaint, paragraph 3), to enforce summarily the Custodian's seizure. Miller *v.* Kaliwerke Aschersleben A.G., 283 Fed. 746; Application of Miller, 288 Fed. 760. And defendant concedes that in such a proceeding it is barred from raising the defense of antitrust illegality (as well as invalidity of the patent), must forthwith turn over the captured property to the Custodian and thereafter is remitted to 119 its rights, if any, under Section 9 (a) of the Act for Section 9 (a) of the Act for a return. In sum, if this action is regarded as a plenary suit on the merits, we have shown that the defense of illegality is unavailing as against the Custodian as a matter of law and must be dismissed on the merits. In this action be regarded as a summary proceeding to enforce compliance with the Custodian's vesting order and demand, and we believe it should be so regarded, then defendant is barred from even interposing the defense of illegality (and patent invalidity) in this proceeding and the motion to dismiss should be granted.

Apart from the foregoing, defendant's argument would subject it to greater liability than presently prayed for. Defendant argues that it was obliged to pay royalties only if it received an exclusive license by the agreement of December 2, 1933; that since the agreement was illegal for

violating the antitrust laws, defendant did not receive an exclusive license (or any license) under the agreement; that hence there was a failure of consideration and defendant is not obliged to pay any royalties whatever. Defendant cynically waives away the $93,952.97 it received from granting sub-licenses under the patents licensed to it under the 1933 agreement by intimating that the sub-licensees were ill-advised to take such licenses and by suggesting that plaintiff should pursue the sub-licensees for their use of the patents. If defendant's reasoning is adopted, then it had no rights respecting the patents covered by the 1933 agreement and no authority to grant licenses thereunder. The conclusion then follows that defendant is liable to plaintiff for the full $93,952.97 which it collected from the sub-licensees (less only the $13,750 defendant paid to Tubus), for the patents which defendant purported to sub-license had been vested by
120 the Custodian's Vesting Order No. 3369 in March of 1944 and the Custodian thereupon became the owner of these patents "as completely as if by conveyance, transfer or assignment" (Commercial Trust Co. *v.* Miller, 262 U.S. 51, 56). On defendant's reasoning, it used and disposed of the Custodian's property without his authorization and without warrant of law by granting sub-licenses. It is well established that one who wrongfully disposes of the property of another is liable to the owner for the profits of such disposition—here the proceeds of the sub-licenses—as a constructive trustee. 3 Scott on Trusts, Sections 461, 462, 507, 508, 509; Hamilton Brown Shoe Co. *v.* Wolf Bros. & Co., 240 U.S. 251, 259. As a constructive trustee, defendant would be liable to plaintiff for all the proceeds of the sub-licenses in the amount of $93,952.97 less $13,750 it had paid to Tubus.

Plaintiff is not presently seeking to hold defendant accountable as a constructive trustee, which would subject

defendant to far greater liability than the $21,377.29 presently sued for. Rather, plaintiff is merely seeking to recover the royalties which defendant freely and voluntarily promised to pay in the 1933 agreement. However, plaintiff may be constrained to seek an accounting from defendant as a constructive trustee is defendant would otherwise be permitted to retain the fruits of its wrongdoing and remain unjustly enriched.

II. Defendant is estopped from asserting the invalidity of the patents.

Enough has been said in our previous briefs to demonstrate that a licensee is estopped to deny the validity of the patent under which he has taken a license and that the only inroad made upon this doctrine is where the 121 doctrine is where the underlying patent license agreement contains price fixing clauses which, save for the validity of the patent, would violate the antitrust laws. There are no price fixing provisions in the 1933 agreement involved here. The rationale of the price fixing cases is that where the price fixing must rest on a valid patent to escape antitrust illegality, then the licensee, in the interest of the public, is not estopped to show that the patent is invalid. If the estoppel doctrine may be further eroded, which we deny, under the present state of the law, it would be for the purpose of enabling the licensee to show invalidity of a patent to establish some other antitrust illegality which could not be shown if the patent were valid. But in the case at bar, as plaintiff concedes, the agreement of December 2, 1933 violates the antitrust laws because of the restrictions on import and export set forth in paragraph 13 of the agreement and plaintiff further concedes that this illegality exists despite the validity of the underlying patents. Export-import restrictions could not, in any circumstances, rest upon a patent, because of the territorial limitations which attach to every

nois, that on the 7th day of October 1955, he placed a copy of Pltff's Answer to def. reply memo. & Final Decree in a Government franked envelope addressed to:

Name: Defrees, Fiske, O'Brian & Thomson

Address: 105 S. LaSalle St., Chicago, Illinois

and that he placed said envelope in the United States mail chute, located in the United States Courthouse, Chicago, Illinois, on said date at the hour of about 10:30 A.M.

124-145 * * *

146 (Registered Mail No. 784290)
(Signed and Mailed Feb. 25, 1952)

P. C. File No. 3369
PEL:FCH:MAH:am

February 21, 1952

La Salle Steel Company
P. O. Box 6800-A
Chicago 80, Illinois

Re: Agreement dated December 2, 1933 by and between Tubus A. G. and La Salle Steel Company.

Gentlemen:

In our letter dated August 14, 1951, we informed you that our audit relating to the above identified agreement, disclosed the following:

Total tons of extruded valves and tappets produced by La Salle Steel Company's licensees	21,840.936
Royalties @ $1.25 per ton	$27,301.17
Advance royalty payment	13,750.00
Difference	$13,551.17

In addition to the aforementioned sum which is owing to this Office, we also informed you in our letter of Au-

patent grant. Defendant, having taken a license under the patents in suit cannot attack the validity of these patents in order to show antitrust illegality. In other words, any reason for extending the inroads on the estoppel doctrine made by the price fixing cases disappears here.

Moreoever, it should be recalled that defendant contends that the production on which plaintiff's claim to royalties is based is not its own production but that of its licensees. And we have seen that defendant has collected $93,952.97 in royalties from its sub-licensees. Defendant sub-
122 licensed the patents licensed to it by the 1933 agreement, or at least one of them, and it was for their production under such patents tnat the sub-licensees paid royalties to defendant. It hardly lies open to defendant to argue that in its own sub-licenses, for which it has received such substantial royalties, it granted the sub-licensees nothing because the patents were invalid and that, hence, it owes nothing to plaintiff. Thus, defendant is doubly estopped to deny the validity of the patents in suit: defendant is estopped both as a licensee of the patents under the 1933 agreement and as a licensor which itself granted sub-licenses under the patents.

Finally, defendant itself concedes that if this is a summary suit for compliance with the Custodian's seizure—and we have shown in Point I that this is such a suit—the defense of patent invalidity cannot be interposed in this proceeding at all.

It is respectfully submitted that plaintiff's motion to strike defendant's affirmative defenses should be granted.

123 AFFIDAVIT OF MAILING

State of Illinois }
County of Cook } ss.

/s/ Willie R. Baskin being first duly sworn, on oath deposes and says that he is employed in the Office of the United States Attorney for the Northern District of Illi-

gust 14, 1951, that an additional amount which we had not then computed was due to this Office, because of the escalator clause embodied in Paragraph 4 of the above identified agreement, which reads, in part, as follows:

> "When the 'Composite Price of finished steel', computed in manner set forth on page 85 of the Iron Age for January 5, 1933, exceeds $2.546 per hundred weight, the above royalties shall be increased in proportion to the excess."

As was explained to you in our letter dated August 11, 1951, we had not figured the additional amount that was due, because Iron Age changed its method of computing the composite price of finished steel in 1941, and again in 1949. As a result, the composite prices of finished steel computed in the manner agreed upon in the above identified agreement were not published for the years 1941-1950, inclusive. In our letter dated January 7, 1952, however, we informed you that we were taking the necessary steps to compute the amount owing by virtue of the escalator clause. Our auditors, with the assistance of members of the staff of Iron Age, have now calculated
147 the composite price of finished steel for the years commencing January 1, 1941 through November 30, 1950, in the manner set forth on page 85 of Iron Age for January 5, 1933. These calculations disclose that the composite price of finished steel calculated by the agreed upon method exceeded $2.546 per hundred weight for each year, commencing January 1, 1946, and ending November 30, 1950. There is set forth on the attached schedule composite prices of finished steel as computed in the manner agreed upon, together with certain other information. You will note therefrom that the sum of $7,826.12 is owing by virtue of the escalator clause, making a total sum of $21,377.29, that is due and unpaid.

In view of the above described situation, demand is hereby made upon you to remit to this Office on or before March 15, 1952, all due and unpaid royalties owing under the terms of the subject agreement. Your check in the amount of $21,377.29 should be made payable to the Attorney General of the United States, and sent to this Office.

148 Post Office Department
Official Business
(Dated—Chicago 73, Ill.—Feb 27 1952—3:30 PM)
Return to—Office of Alien Property
Department of Justice
Street and Number,
or Post Office Box—PEL:FCH:MAH:am—P. C. 3369
Registered Article
No. 784290
Insured Parcel

No. .....

Washington, D.C.

149 RETURN RECEIPT

Received from the Postmaster the Registered or Insured Article, the original number of which appears on the face of this Card.

1. La Salle Steel Co.
(signature or name of addressee)

2. R. Barnes
(Signature of addressee's agent—Agent should enter addressee's name on line ONE above)

Date of delivery—Feb. 27, 1957

COMPUTATION OF ROYALTIES PAID ON COMPOSITE PRICE OF FINISHED STEEL AS COMPILED BY I.C.N. FROM 1938 TO 1940 AND AS CALCULATED FROM THE IRON AGE FROM 1941 TO 1950.

Year	Escalator Base Price Per Agreement	Composite Price as Computed From Iron Age Records	Excess Of Iron Age Price Over Escalator Base	Excess Expressed in Percentage	Increase in Royalty Rate	Royalty Rate Adjusted From 1.25 Per Ton	Tonnage Produced	Royalty at 1.25 per Ton	Royalty Payable Under Agreement	Additional Royalty Due to Escalator Clause
1938	2.546	2.394	-	-	-	-	101.029	$ 126.29	$ 126.29	-
1939	2.546	2.257	-	-	-	-	164.263	205.20	205.20	-
1940	2.546	2.259	-	-	-	-	482.782	603.52	603.52	-
19[illegible]	2.546	2.394	-	-	-	-	478.114	597.02	597.02	-
1942	2.546	2,394	-	-	-	-	753.808	942.26	942.26	-
1943	2.546	2.394	-	-	-	-	1,150.635	1,438.30	1,438.30	-
1944	2.546	2.394	-	-	-	-	1,474.027	1,842.54	1,842.54	-
1945	2.546	2.[illegible]1	-	-	-	-	934.277	1,167.85	1,167.85	-
1946	2.546	2,686	.140	5.4988%	.07	1.32	-	-	-	-
1947	2.546	3.021	.475	18.6567%	.23	1.48	1,523.400	1,904.25	2,254.43	350.[illegible]
1948	2.546	3,[illegible]2	.796	35.1925%	.44	1.69	7,304.280	9,130.35	12,344.23	3,2[illegible]
1949	2.546	3.711	1.165	45.7581%	.57	1.82	7,443.270	9,304.09	13,[illegible]6.75	4,2[illegible]
1950	2.546	3.[illegible]6	1.[illegible]	51.0[illegible]%	.64	1.89	30.001	37.50	5[illegible].[illegible]	15.[illegible]
							21,840.936	27,301.17	35,127.29	7,[illegible]26.12

SUMMARY

Royalties computed on tonnage produced at 1.25 per ton.	27,301.17
Additional royalties owing due to escalator clause.	7,826.12
Total Royalties	35,127.29
Less - advance royalty paid to Tubular [illegible].	13,750.00
Royalties due and unpaid.	21,377.29

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State of Illinois } ss.
County of Cook }

IN THE DISTRICT COURT OF THE UNITED STATES
* * (Caption—No. 55 C 263) * *

DEFENDANT'S RESPONSE TO NEW MATTER IN PLAINTIFF'S ANSWER TO DEFENDANT'S REPLY MEMORANDUM.

(Filed Nov 10 1955)

MAY IT PLEASE THE COURT:

We regret the necessity for another memorandum. Plaintiff's most recent reply brief contains new material, new arguments and is supported by new exhibits which require us to respond.

1. There has been no "res vesting" of the sum claimed by plaintiff.

Our reply memorandum pointed out the crucial distinction between a summary proceeding to enforce a res vesting order, and an action to enforce such right and interest, if any, as the Custodian may have acquired pursuant to a "right, title and interest" vesting order. (Def.'s Rep. Mem., pp. 17-20)

152 Where the Custodian is seeking to enforce a valid res vesting order, the defendant may not assert a substantive defense, being relegated instead to a separate proceeding to recover the seized property. On the other hand, where the Custodian is merely suing to enforce such right or interest as he may have acquired by seizure, the defendant is free to defend on the merits. (Def.'s Rep. Mem., pp. 20-22)

The plaintiff now maintains that he "has effected a res vesting of the property and that this is a summary suit for compliance with his vesting order" (Pl.'s Ans., p. 4). This contention, made for the first time in Plain-

tiff's Second Reply Brief, is without either factual or legal support.

Actually, plaintiff makes not one but two arguments in this regard. The first is that Vesting Order No. 3369, as clarified by his letter of February 21, 1952, effectually "res vested" the $21,377.29 claimed by him. The second is that the latter letter itself should be viewed as an order res vesting that sum.

The first of these arguments is phrased as follows:

> "The vesting order in suit, Vesting Order No. 3369 (a copy of which is annexed to the Complaint), is both a res vesting and a 'right, title and interest' vesting. The vesting order vests the properties described in Exhibit A attached to the order. Exhibit A, paragraph (a) res vests the patents which are the subject of this suit since it vests 'all right, title and
> 153 interest . . . in and to the patents', not merely the rights and interests of specified persons in the patents.* Paragraph (b) of Exhibit A is a right, title and interest vesting since it vests 'all interests and rights . . . created in Tubus A. G. by virtue of an agreement dated December 2, 1953.' While paragraph (b) does not define the quantum of Tubus' rights and interests and the amount of royalties which were vested, the demand of February 21, 1952 served upon defendant (Complaint, paragraph 19) does contain such a definition." (Pl.'s Ans., pp. 4-5; Emphasis supplied)

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* The fact that the patents underlying the 1933 license agreement were res vested avails plaintiff nothing. Ownership of the patents is not in dispute. And as noted in our first reply memorandum, plaintiff, in its capacity as owner of the patents, has no claim whatsoever against La Salle; for La Salle did not produce under them. As owner of the patents, plaintiff's sole possible claim is against Thomson and Eaton. Def.'s Rep. Mem., pp. 7-8, 23.

The plain intendment of the quoted passage, particularly the italicized sentence, is that (1) Tubus possessed, at the time Vesting Order No. 3369 was executed, a claim against La Salle for the royalties now in dispute; (2) that the general language of Vesting Order No. 3369 encompassed this claim although the exact "quantum" of royalties due was not specified; (3) that the letter of February 21, 1952, which claimed the sum of $21,377.29, merely specified the precise sum which had already been res vested by that Order.

154 Basic to this entire argument, therefore, is the implied contention that the $21,377.29 now claimed by plaintiff was "owing" to Tubus, under the terms of the 1933 agreement, at the time Vesting Order No. 3369 was executed. This contention is demonstrably false.

Vesting Order No. 3369 was executed on March 29, 1944. (Complaint, Par. 11) Attached to plaintiff's letter of February 21, 1955 is a schedule of his claim. This schedule shows that on March 29 1944 Tubus had no claim whatsoever against La Salle under the 1933 agreement. Moreover, it also indicates that the alleged royalties which plaintiff is seeking to recover did not begin to accrue until 1948. Plaintiff's entire claim is for royalties which allegedly accrued during the years 1948-1950 * — from four to six years after the vesting order was executed.

Plaintiff's argument that Vesting Order No. 3369 effectually "res vested" the $21,377.29 is patently absurd.

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* The schedule shows the "Royalty Payable Under Agreement" for each of the years 1938-1950. These total $35,127.29. Deducting $13,750 of advance royalties gives the sum claimed by Plaintiff — $21,377.29. The schedule shows that the royalties alleged for the years 1938 through 1944, inclusive, aggregate but $5,767.13 — a sum substantially less than the advance royalties of $13,750 paid by La Salle. Similarly, the royalties alleged for the years 1938 through 1947, inclusive, total but $9,179.61 — also less than the advance royalties.

Plaintiff's second argument (Pl.'s Ans., pp. 5-6) is that his letter of February 21, 1952 was in effect a vesting order, that by this "order" he "res vested" the $21,377.29 in dispute, and that the instant suit is a summary proceeding to enforce that "order". This contention is also fallacious.

155 Implicit in this argument is the complacent assumption that where the Custodian has become the owner of alien property, he may enforce, by summary process, any claim which might arise in his favor, after seizure of the property, by reason of his ownership of it. This is not true.

The Custodian's seizure powers, granted by Sections 5(b) and 7(c) of the Trading With the Enemy Act, apply only where he can claim that the property or money sought is owned by, or owed to, an enemy alien or other foreign national.* They do not extend, as plaintiff would have the Court believe, to any and all claims, however derived, which the Custodian may choose to assert.

Once the Custodian has vested property, he is the owner of it. The enemy alien from whom it is seized no longer possesses any interest whatsoever. Commercial Trust Co. *v.* Miller, 262 U.S. 51, 56 (1923); Cummings *v.* Deutsche Bank, 300 U.S. 115, 120-121 (1937). Consequently, the enemy alien is also without an interest in any claim which may arise or accrue, after seizure, by virtue of owner-

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* "5(b) . . . any property or interest of any foreign country or national thereof . . ." 50 U.S.C. App. §5(b)

"7(c) . . . money or other property, including (but not thereby limiting the generality of the above) patents, copyrights, applications therefor, and rights to apply for the same, trade marks, choses in action, and rights and claims of every character and description owing or belonging to or held for, by, on account of, or on behalf of, or for the benefit of, an enemy or ally of enemy . . ." 50 U.S.C. App. §7(c) (emphasis supplied)

156 ship of the property. Such a claim belongs at all times, from the very moment it arises or accrues, to the Custodian. It cannot be said that such a claim was ever owed to, or owned by, an enemy alien. Post-vesting claims or choses in action are thus not within the class of property which the Custodian is authorized, by Sections 5(b) and 7(c), to seize by summary process. As to them, the Custodian has merely, under Section 12 of the Act, "the powers of a common-law trustee." 12 U.S.C. App. §12(c). In this capacity he may bring a regular suit at law to enforce the claim; but in any such proceeding the defendant is free to assert any and all defenses he may have.

In brief, the Custodian's seizure powers, and his correlative right to enforce a seizure by a summary proceeding in which the defendant may not interpose a substantive defense, are limited to the initial acquisition of alien owned property. Once the Custodian has acquired the property, whether by a res vesting order (followed, if necessary, by a summary proceeding to obtain possession of the "res" so vested), or by a right, title and interest vesting order he has, essentially, only the rights of any owner of like property. He may sue to enforce any rights or claims that may subsequently accrue to him through his ownership of the property, but in any such proceeding the defendant is entitled to defend on the merits.

The leading case on this point is In re Sutherland, 23 F. 2d 595, 599 (2d Cir. 1928). There the Custodian (Sutherland) had "res vested" certain shares of Eastman 157 Kodak Company stock. The Custodian brought a summary proceeding, under Section 17, against the Company to obtain possession of the shares and also to recover dividends declared on them subsequent to the vesting order. The trial court ruled in favor of the Custodian.

The Court of Appeals reversed as to the dividends. It held that the Custodian might not recover, in such a summary proceeding, dividends declared subsequent to the vesting order by which he had obtained title to the stock. Said the Court:

> "The Custodian, after issuance of the certificate, has all the rights of a stockholder. This affords him the right to call for payment of the dividends, but, if suit is necessary, the provisions of section 17 of the act may not be invoked in requiring compliance. The question is one of remedy. No summary relief may be granted to the Custodian, where there were no dividends at the time the demand was made. When in possession, the Custodian is in place of the alien stockholder. After the seizure, the corporation would pay future dividends to the alien at its peril. But there is no trust fund until the dividends have been segregated and set apart as such. The stockholders' remedy, in the absence of such segregation, is solely one at law. All that the Custodian may seize is what the President was authorized after investigation to seize, namely, that which was owing or belonging to the alien. The President was not given the power to require the delivery to him of money or property not then owing, but which might become owing in the future. In the absence of the Custodian establishing that dividends were owing at the time of his determination and demand, he may not have the relief he has obtained under Section 17 of the Trading with the Enemy Act."

In this connection, it is interesting to note that in the subsequent suit by the Custodian to collect the dividends in question, the Eastman Company was permitted to raise the defense of illegality which it had not been allowed to

raise in the summary proceeding brought by the Cus-
158 todian to obtain possession of the stock which he had
res vested.* Thoms *v.* Sutherland, 52 F. 2d 592 (2d Cir. 1931); see also, Defendant's Reply Memorandum, pages 20-21.

In the case at bar, as previously noted, plaintiff is suing to collect royalties which allegedly accrued, during the years 1948-1950, under the terms of the 1933 agreement between La Salle and Tubus. However, all rights and interest of Tubus under this agreement, and in the underlying patents, were vested by the Custodian in 1944. Thus, under Plaintiff's own schedule of his claim, the "royalties" which he seeks to recover were never owned by, or owed to, an enemy alien or other foreign national. No part of the sum sought by the Plaintiff was ever subject to summary seizure under Sections 5(b) and 7(c) of the Trading With the Enemy Act. Plaintiff has no more standing to collect these royalties in a summary proceeding than he had, in the Sutherland case, so to collect dividends declared, subsequent to vesting, upon shares of stock which he had seized.

2. Plaintiff's in terrorem argument is without merit.

Plaintiff now contends that were he so inclined he might collect from La Salle, under the theory of constructive trust, a far larger sum than is now demanded.

159 Plaintiff's novel argument consists of the following steps (Pl.'s Ans., pp. 6-7):

1. "If defendant's reasoning is adopted, then it had no rights respecting the patents covered by the

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* In the Thoms decision the Court ruled in favor of the Custodian on the ground that the agreement pursuant to which the stock had been issued was not illegal. The Court proceeded, however, on the assumption that any defense of illegality available against the original German stockholder was likewise available against the Custodian.

La Salle assigned to Thompson and Eaton part of a non-existent interest (i.e., its "exclusive license" under the 1933 agreement) in certain property (i.e., Reissue Patent No. 19,474) owned by the Custodian. In this situation, it is vendee of the non-existent "interest" so conveyed, (i.e., Thompson or Eaton) and not the actual owner of the property, who has a cause of action against the vendor to recover the purchase price. Restatement, Restitution §24; Nill *v.* Vilsack, 93 Atl. 622 (Pa.); Moorehead *v.* Davis, 92 Ind. 303.

The authorities cited by the plaintiff are not in point. Scott on Trusts might be applicable had there actually been disposition of plaintiff's property. As shown above, this was not the case. If anything, Hamilton Brown Shoe Co. *v.* Wolf Bros. & Co., 240 U.S. 251, 259 (1916) supports the defendants' position. There the plaintiff collected, upon a theory of constructive trust, profits
161 realized by the infringer of a trade-mark. This indicates, as we pointed out in our Reply Memorandum (Def.'s Rep. Mem., p. 23), that the plaintiff may have a cause of action against Thompson and Eaton for infringement. However, he has no such claim against La Salle, which never produced under the patents in question.

The situation is, in brief, that only Thompson and Eaton have a basis for suit with regard to payments made by them to La Salle under legally ineffective "sublicense" agreements; and only Thompson and Eaton are even potentially liable, in quasi contract or constructive trust, by reason of their production under patents owned by plaintiff.

In these circumstances plaintiff may have a remedy. If so, he has mistaken the person or persons against whom that remedy lies.

1933 agreement and no authority to grant licenses thereunder."

2. "On defendant's reasoning, it used and disposed of the Custodian's property without his authorization and without warrant of law by granting sub-licenses."

3. "It is well established that one who wrongfully disposes of the property of another is liable to the owner for the profits of such disposition — here the proceeds of the sub-licenses — as a constructive trustee."

With regard to the first step in this line of argument, plaintiff and defendant are in full accord. La Salle agrees that it had no rights respecting the patents covered by the 1933 agreement and that, accordingly, it was without authority to grant sub-licenses thereunder.

However, it does not follow, from this premise, that La Salle "disposed of" the Custodian's property when it purported to grant sub-licenses. The inevitable conclusion is instead that La Salle's action was but a nullity. There was no effective transfer of any property interest. The Custodian lost nothing by the purported sub-licenses; Thompson and Eaton gained nothing. The Custodian 160 possessed, after the purported sub-licenses were made, all and the same rights and interests which he had possessed before; Thompson and Eaton, on the other hand, possessed no right or interest which they would not have possessed had the "sub-license" agreements never been made. The purported sub-licenses, for example, would have afforded them no defense whatsoever against infringement actions by the Custodian.

Under these circumstances it cannot be said that there was ever a "disposition of" any property belonging to the plaintiff.

On the contrary, what occurred was quite different.

3. Standard Oil *v.* Clark does not support Plaintiff's claim.

In our first reply memorandum we discussed the case of Standard Oil Co. *v.* Clark, 163 F. 2d 917, 932 (2d Cir. 1947), at some length (Def.'s Rep. Mem., pp. 8-16). We there established these points:

1. The Court's decision, by its own terms, involved no more than a construction of a consent decree. The Court merely decided that in view of the circumstances surrounding the entry of the decree, and the language of the decree itself, a prohibition against accounting to I. G. Farbenindustrie (which was not a party to the decree) did not apply, and had not been intended
162 to apply, to the Custodian (who was a party to the decree and was specifically mentioned by name therein) so as to destroy the equitable interest of the Custodian in certain patents or his right, as a partial equitable owner, to a share of the royalties derived from such patents. There is nothing in the Court's opinion to indicate that the Custodian was entitled, as a matter of law, to a more favored position than the one to which I. G. would have been entitled had there been no seizure.

2. The interest which the Custodian retained in those patents, under the consent decree, as that decree was construed by the Court, was no greater than the interest which I. G. could have retained had there been no seizure and had it (rather than the Custodian) participated in the anti-trust proceeding in which the consent decree was entered.

3. Thus, neither the opinion of the Court of Appeals, nor any implication inherent in its holding, supports plaintiff's contention that the Custodian, by seizure of the interest of an enemy alien, thereby acquires a greater right or interest than the alien possessed.

Consequently, the decision does not support plaintiff's claim that he can enforce an admittedly illegal agreement which his predecessor in interest, Tubus, could not have enforced.

163 The plaintiff has not answered this argument. He has not been able to show, by reference to the Court's opinion, wherein our analysis of the decision was incorrect.

Plaintiff now relies instead upon certain provisions of the unpublished decree subsequently entered by the District Court upon remand of the case. Here, again, plaintiff's brief is factually inaccurate.

Plaintiff states that the decree "expressly provides that defendants must pay to the Custodian royalties that had accrued. . . ." The actual provision was quite different. For one thing, there was no provision at all for payments by the "defendants". There was but one defendant in the case—the Attorney General, as successor to the Alien Property Custodian. The parties to whom plaintiff probably refers — Standard Oil and certain of its subsidiaries — were plaintiffs. This distinction is important. As shown in our reply memorandum (pp. 11-14), the suit was a proceeding to recover property seized by the Custodian; there was no counterclaim. Consequently, the case related solely to the property interests seized by the Custodian and claimed by Standard and its subsidiaries; the suit did not involve monetary claims by the Custodian against any of the Standard companies. At best, therefore, the provisions to which plaintiff refers constituted but an agreed settlement of monetary claims which were not issues in the case.

Moreover, use of the term "accrued" is also misleading; for it imports the enforcement, against a licensee, of
164 a patent license agreement. The actual provision was that Standard Catalytic (usually referred to as S.I.G.)

pay over a specified "portion of its royalty receipts." As shown in our reply memorandum (pp. 9-10), S.I.G. existed solely for the purpose of licensing patents of which Standard and I.G. (later, the Custodian) were the equitable owners. Royalties received by S.I.G., over and above expenses and a nominal profit, belonged to the equitable owners of the patents. At most, therefore, the decree provided for the distribution, by S.I.G., of a fund which S.I.G. had received from third parties for the account and benefit of Standard and I.G.* As pointed out in our reply memorandum (pp. 22-23), such relief, being quasi contractual in nature, is far different, even where the arrangement is tainted with illegality, from the relief plaintiff seeks in this proceeding, i.e., a judgment enforcing the illegal agreement itself.

4. Plaintiff's double estoppel argument is without merit. Having failed in his previous efforts to establish that La Salle is even "singly" estopped to contest the validity of the licensed patents (See Def.'s Rep. Mem., pp. 165 23-26), Plaintiff now contends, unblushingly, that La Salle is "doubly estopped" — the additional estoppel being predicated upon the royalties which La Salle received from Thompson and Eaton. This contention, novel as it is, is clearly frivolous; for plaintiff is trying to assert, for his own benefit, a right which if it exists at

* Plaintiff's answer refers to three clauses in the decree entered by the District Court — 9(a), 9(b) and 9(c). Section 9(a), referring to royalty receipts of S.I.G. for the period prior to the entry of the consent decree, is discussed above. Section 9(c) refers to the royalty receipts from the S.I.G. patents for the period subsequent to the entry of the consent decree. The recovery granted by this Section is discussed at pages 14-16 of our first reply memorandum. Section 9(b), since it apparently involved patent agreements initially made with S.I.G., is governed by the same considerations applicable to Section 9(a).

all belongs to Thompson and Eaton and not to him.

Estoppels do not arise in favor of all and sundry. They exist only in favor of parties to the transaction which gave rise to the estoppel. See 19 Am. Jur., p. 809, Estoppel §152; 31 C.J.S. pp. 226, 397-398, Estoppel §46, 130. The plaintiff was not a party to the agreements which La Salle made with Thompson and Eaton. Neither is he in privity with either of them. Plaintiff is clearly ineligible to predicate an estoppel upon those agreements, or the receipt by La Salle of royalties thereunder.

CONCLUSION.

For the reasons stated in defendant's previous memoranda, and in this reply memorandum, the Court should deny plaintiff's motion to strike the defendant's affirmative defenses.

Respectfully submitted,
/s/ Vincent O'Brien
Vincent O'Brien
Attorney for the Defendant.

Received copy hereof
on Nov. 8, 1955.

166 • • •
167

UNITED STATES DISTRICT COURT
• • (Caption 55 C 263) • •

PLAINTIFF'S ANSWER TO DEFENDANT'S RESPONSE TO "NEW MATTER."

(Filed Nov. 21, 1955)

1. The constructive trust theory.

Defendant asks this Court to blink away the hard fact that it has received $93,952.57 from sub-licensing the patents which were licensed to it by the 1933 agreement and

at the same time refuses to pay $21,377.29 in royalties which defendant promised to pay in the 1933 agreement. We have shown that defendant is liable to plaintiff for the latter sum and that the defenses of antitrust illegality and patent invalidity may not be successfully asserted against the plaintiff. Alternatively, we have suggested that if defendant's reasoning is adopted that it had no rights under the 1933 agreement, then it would be liable as a constructive trustee to plaintiff for the $93,952.57 (less only the $13,750 defendant paid to Tubus) received from the sub-licensees.

Defendant seeks to meet this alternative argument 168 by urging that plaintiff's rights and remedies would be against the sub-licensees for infringing the patents[1] rather than against defendant which has collected the $93,952.57 for the use of plaintiff's patents, and this on the ground that defendant's sub-licenses were ineffective since defendant had no right to sub-license. But, to employ an analogy, if a person tortiously converts an automobile and then purports to sell it to a stranger for one thousand dollars, even defendant would concede that the owner of the automobile could recover the thousand dollars from the converter as a constructive trustee and need not pursue the stranger to recover the car, this despite the fact that, of course, the converter could not transfer title to the car.

Apparently, defendant would extend the "meanly dishonest position", which it is urging, to its own sub-licensees, from whom it has received such substantial royalties, as well as to plaintiff For defendant suggests that plaintiff should pursue the sub-licensees for infringement even though defendant granted the sub-licenses and warranted and represented to its sub-licensees that it was

[1] Defendant here forgets that previously it had urged that the sub-licensees would not be liable for infringement (Defendant's reply memorandum, p. 15).

thereby giving them immunity from infringement suits by the patent owner. We thus have a paradoxial situation wherein defendant is urging that, although it defrauded its own sub-licensees, it should be permitted to retain all of the fruits of its fraud as against plaintiff. And, incidentally, defendant might expose its sub-licensees to double liability in the process. But plaintiff merely 169 seeks to hold defendant to a position of substantial, though not complete honesty. For by recovering the $21,377.29 in royalties due under the 1933 agreement, plaintiff would not seek to hold defendant as a constructive trustee for the $93,952.97 received from the sub-licensees and, of course, plaintiff would not be seeking to hold the sub-licensees liable as infringers. In so doing, plaintiff seeks not only substantial justice but also the avoidance of a multiplicity of suits. This latter objective is likewise something which defendant chooses to ignore, even at the risk of an affront to the judicial process itself.

2. The question of a summary suit for possession.

We have urged that the Court may view this action either as a plenary suit or as an action merely for possession of the vested property. As a plenary suit, defendant may be heard on its defenses of illegality and invalidity but we have shown that these defenses fail on the merits. As a possessory proceeding, these defenses may not be interposed here at all but defendant must forthwith yield possession of the $21,377.29 in royalties and is thereafter remitted to its rights, if any, under Section 9(a) of the Trading with the Enemy Act.

Defendant's last brief goes to the question of whether this is a possessory action. Defendant's reliance on In re Sutherland, 27 F. 2d 595 (C.A. 2) is misplaced. There the court directed that shares of stock be transferred summarily to the Custodian pursuant to his demand but 170 refused to grant such summary relief with respect

to dividends on the shares because these dividends were not declared until long after the date of the Custodian's demand. The court's opinion (23 F. 2d 595, 599) clearly indicates that summary relief would have been granted if the dividends had been declared at the time the demand was made. (Cf. In re Littman's Estate, 176 Misc. 679, 28 N.Y.S. 2d 458 (Surr. N.Y. City); In re Daly's Estate, 189 Misc. 680, 74 N.Y. 2d 711 (Surr. N.Y. City). In the case at bar, however, the $21,377.29 in royalties had accrued and were owing by February 21, 1952, the date of the Custodian's demand.

So too defendant is clearly wrong in urging that after the issuance of Vesting Order No. 3369 in 1944 no further turnover directive or demand would lie respecting royalties on the ground that, by reason of the previous vesting order, any turnover directive or demand would no longer relate to enemy property. This mechanical, conceptualistic argument would go far to destroy the effectiveness of the Trading with the Enemy Act. For the courts have uniformly recognized that a turnover directive or demand may be property employed as a step effectively to capture property under the Act even though there was a previous vesting order respecting such property; in other words, that a vesting does not insulate the property from the Custodian's powers under the Act to reduce the property to possession by a later turnover directive or demand. Kermath Manufacturing Co. v. Brownell, 222 F. 2d 577 (C.A. 6); Clark v. E. J. Lavino & Co., 175 F. 2d 897 (C.A. 3); In re Yokohama Specie Bank, 66 N.Y.S. 2d 289; 171 In re Daly's Estate, supra.

3. The Standard Oil case.

The Standard Oil case has been discussed in the six briefs already filed by both sides. We submit that for all of defendant's spate of words seeking to distinguish away this case, the case is strong authority for the proposition

that the Custodian may recover royalties under an illegal patent licensing agreement even though the enemy whose rights were vested could not.

4. The question of estoppel.

Defendant in his last brief sedulously avoids meeting plaintiff's "single" estoppel argument. Of course it is sufficient that defendant is "singly" estopped (i.e., as a licensee under the 1933 agreement) to deny the validity of the patents in suit and the court need not consider whether defendant is also "doubly" estopped (i.e., as a licensor which itself granted sub-licenses under the patents). Defendant's argument that the latter estoppel does not apply is apparently based on the doctrine for which it cites American Jurisprudence as authority to the effect that "mutuality is an essential element of an estoppel; an estoppel must bind both parties or neither is bound". (19 Am. Jr., p. 809.) But in this case Tubus and plaintiff would be estopped to deny the validity of the patents licensed in the 1933 agreement because Tubus granted defendant a license under that agreement and plaintiff seeks to collect royalties thereunder. So the requisite element of mutuality is present here, and we submit defendant is "doubly" estopped.

172 It is respectfully submitted that plaintiff's motion to strike defendant's affirmative defenses should be granted.

/s/ Dallas S. Townsend
Dallas S. Townsend
Assistant Attorney General

/s/ R. Tieken
Robert E. Tieken
United States District Attorney
Northern District of Illinois

/s/ James D. Hill
James D. Hill

/s/ Walter T. Nolte
Walter T. Nolte
/s/ Samuel Z. Gordon
Samuel Z. Gordon
Attorneys, Department of
Justice
Washington 25, D.C.
Attorneys for Plaintiff

173 AFFIDAVIT OF MAILING

Walter H. Sheparde being first duly sworn, on oath deposes and says that he is employed in the Office of the United States Attorney for the Northern District of Illinois; that on the 21st day of November 1955, he placed a copy of Plaintiff's answer to defendant's response to "New Matter" in a Government franked envelope addressed to:

Name: Defrees, Fiske, O'Brien & Thomson
Attn. Richard L. Wattling, Attorneys at Law
Address: 105 South LaSalle St., Chicago 3, Illinois

and that he placed said envelope in the United States mail chute, located in the United States Courthouse, Chicago, Illinois, on said date at the hour of about 5:30 P.M.

—— Walter H. Shepharde

Subscribed And Sworn to
before me this 21st day of
November, A.D. 1955.
Angelo R. Berg
Notary Public
(Seal)

174 MEMORANDUM AND ORDER
(Filed Feb. 10, 1956)

This matter came on to be heard on plaintiff's motion to strike the two affirmative defenses set forth in defend

ant's answer as failing to state a legal defense to the claim set forth in plaintiff's complaint.

This action is brought under the Trading with the Enemy Act to secure a fund of accumulated royalty payments in possession of defendant. In its answer defendant as affirmative defenses states that the fund sought by plaintiff arose out of an unenforceable patent license agreement, which by its terms violated the anti-trust laws; and that the patent of which defendant was made a licensee is invalid.

The Court has had the benefit of extensive argument of counsel on briefs, has studied the authorities to which the Court's attention has been invited, and is fully advised in the premises.

The Alien Property Custodian ~~(or his~~ successor) is not a mere assignee for value who is seeking to enforce a contract, and therefore vulnerable to all defenses available against the alien whose property and interests have been vested. It appears that the plaintiff's predecessor did vest this fund, by original vesting order, supplemented by later turn-over demand (In re Yokohama Specie Bank, Ltd., 1946, 66 N.Y.S. 2d 289) which plaintiff is attempting to enforce. The defense of illegality of the transaction out of which the fund arose is not available to the defendant against the plaintiff. Kermath v. Brownell, 6th Circ., 1955, 222 F. 2d 577, 580; Standard Oil v. Clark, 2nd Circ., 1947, 163 F. 2d 917.

It further appears that the facts alleged do not bring this case within the exception set out in Sola v. Jefferson, 1942, 317 U.S. 173 (on which defendant relies) to avoid the general rule that a licensee may not contest the validity of the patent in an action for royalties.

Plaintiff's motion is therefore allowed.

Win G. Knoch
United States District Judge

Date: Feb 10 1956

UNITED STATES DISTRICT COURT
* * (Caption—55 C 263) * *
(Filed Mar 9 1956)

175 Plaintiff, by his undersigned attorneys, for his reply to the counterclaim asserted in the answer:

COUNT I

1. Admits that during the year 1945 Thompson Products, Inc., was a corporation organized under the laws of the State of Ohio and that United States Reissue Patent No. 19,474 is one of the patents covered by said contract of December 2, 1933, and denies any knowledge or information sufficient to form a belief as to the truth of the remaining allegations contained in paragraph 1.

2. Admits the allegations contained in paragraph 2, except avers that defendant's written request was dated October 23, 1945 and that defendant therein requested the then Alien Property Custodian to join with defendant in the proposed suit for alleged infringement.

176 3. Admits that Exhibit A attached to the answer is a true and correct copy of the letter which was sent to defendant by the then Alien Property Custodian through his General Counsel, refers to said letter for provisions thereof, and denies the remaining allegations contained in paragraph 3.

4. Denies the allegations contained in paragraph 4.

For a First Separate and Complete Defense to Count I, Plaintiff Alleges:

5. The Court lacks jurisdiction to entertain said counterclaim in that the United States has no consented to be sued in this proceeding on said counterclaim.

For a Second Separate and Complete Defense to Count I, Plaintiff Alleges:

6. Said contract of December 2, 1933 is illegal for violation of the United States antitrust laws, as alleged in paragraphs 21 and 22 of defendant's answer, and defendant

thus had no right or standing to sue, or to require the Alien Property Custodian to sue, for the alleged infringement of said United States Reissue Patent No. 19,474.

COUNT II

7. Refers to Section 15 of said contract of December 2, 1933 for the terms thereof, and denies the allegations contained in paragraph 5.

8. Admits that on or about December 2, 1933, Tubus A.G., the then licensor under said contract of December 2, 1933, received the sum of fifty thousand Swiss francs as advance royalties pursuant to Section 4) A) of said contract of December 2, 1933, and denies the remain-177 ing allegations contained in paragraph 6.

9. Denies the allegations contained in paragraph 7.

For a First Separate and Complete Defense to Count II, Plaintiff Alleges:

10. The Court lacks jurisdiction to entertain said counterclaim in that the United States has not consented to be sued in this proceeding on said counterclaim.

For a Second Separate and Complete Defense to Count II, Plaintiff Alleges:

11. Said contract of December 2, 1933 is illegal for violation of the United States antitrust laws, as alleged in paragraphs 21 and 22 of defendant's answer, and thus defendant is not entitled to the 5% of royalties as sued for in this counterclaim.

For a Third Separate and Complete Defense to the Counterclaim in Count II, Plaintiff Alleges:

12. Defendant, by letter dated November 13, 1935 to Tubus A.G., waived its alleged rights to the 5% of royalties or a portion thereof, as sued for in this counterclaim.

Wherefore, plaintiff requests that Counts I and II of the counterclaim asserted in the answer be dismissed and that judgment be granted to plaintiff as prayed for in the complaint.

/s/ Dallas S. Townsend
Dallas S. Townsend
Assistant Attorney General
/s/ R. Tieken
Robert E. Tieken
United States District Attorney
Northern District of Illinois
178 /s/ James D. Hill
James D. Hill
/s/ Walter T. Nolte
Walter T. Nolte
/s/ Samuel Z. Gordon
Samuel Z. Gordon
Attorneys, Department of Justice
Washington 25, D. C.
Attorneys for Plaintiff

179 PETITION OF THE DEFENDANT FOR CLARIFICATION OF "MEMORANDUM AND ORDER" GRANTING PLAINTIFF'S MOTION TO STRIKE DEFENDANT'S AFFIRMATIVE DEFENSES.

(Filed March 20 1956)

May It Please The Court:

I.

This is an action brought by the Attorney General, as successor to the Alien Property Custodian, to recover certain sums allegedly due for royalties under a patent license agreement, dated December 2, 1933, between the defendant, La Salle Steel Company, and Tubus, A.G., a Swiss corporation.

La Salle's answer to the complaint was in two parts. Paragraphs 1-20 (pp. 1-4) answered the allegations of the complaint; paragraphs 21-24 (pp. 4-7) set up two affirma-

tive defenses. La Salle also asserted a counterclaim
180 in two counts (pp. 7-10).

The first affirmative defense was that the 1933 agreement was illegal, and therefor unenforceable, under the antitrust laws of the United States. The second affirmative defense asserted the invalidity of Reissue Patent No. 19,474, the key patent covered by the 1933 agreement and the only one ever utilized by either La Salle or any of its alleged sub-licensees.

Plaintiff moved the Court for an order striking the affirmative defenses on the ground that they failed to state a legal defense to the claim set forth in the complaint. In support of his motion plaintiff in due course filed a total of four briefs. La Salle submitted three in opposition.

On February 10, 1956, the Court filed a Memorandum and Order allowing the plaintiff's motion to strike the affirmative defenses. It is in an effort to obtain clarification of this Memorandum, so as to facilitate and expedite further proceedings in this action, that La Salle submits the instant Petition.

II.

The Trading with the Enemy Act (50 U.S.C. App. §1-39) gives the plaintiff a choice of two very different remedies for the recovery of money due him under the Act.

One is a summary action, under Section 17, to enforce a turnover directive issued pursuant to Section 7(c) of the Act. The other is a regular civil action, brought by the plaintiff in his capacity as owner of property or
181 interests seized under a "right, title and interest" vesting order, to enforce a claim or right incident to such ownership. See Bishop, Judicial Construction of the Trading with the Enemy Act, 62 Harv. L. Rev. 721, 733-734 (1949); Clark v. Edmunds, 73 F. Supp. 390.

The differences between these two types of proceeding are very marked and affect both the amount of any recovery by the plaintiff, and the consequences, with regard to future litigation between the parties, of any Judgment or Order which may be entered.

In a summary proceeding the defendant has virtually no defense. Usually his only remedy is to obey the Court Order enforcing the plaintiff's Directive—i.e., turn or pay over the property or money claimed by the Custodian—and then commence a proceeding, under Section 9(a) of the Act, to recover the property or money in question. Conversely, however, such a proceeding decides nothing, between the plaintiff and the defendant, with regard to the title to the property seized, or the validity of any substantive defense to the plaintiff's claim. All such matters are left to the subsequent Section 9(a) proceeding for adjudication. Central Union Trust Co. v. Garvan, 254 U.S. 554, 566-569 (1921). Commercial Trust Co. v. Miller, 262 U.S. 51, 53-57 (1923).

A concise statement of the applicable rules regarding such summary proceedings is contained in Clark v. E. J. Lavino & Co., 72 F. Supp. 497, 499. That case in-
182 volved an action, under Section 17, for an order directing the defendant to turn over to the Custodian a certain sum allegedly due and owing to an enemy alien. The defendant, in its answer, defended on the ground that it was entitled, by reason of a breach of contract by the alien, to a set-off against the sum claimed by the Custodian. The Court struck the answer and entered an order directing payment of the full sum claimed by the Custodian. Said the Court:

> "I think that respondent's position indicates a misapprehension of the nature of the present proceeding. This is a summary proceeding, ancillary to the capture of enemy property by the United States in

time of war, to obtain possession of property which the Alien Property Custodian has determined to be enemy property. The proceeding is purely possessory. It involves no adjudication of title to the property. Central Union Trust Co. of New York v. Garvan, 254 U.S. 554, 41 S. Ct. 214, 65 L. Ed. 403; Stoehr. v. Wallace, 255 U.S. 239, 41 S. Ct. 293, 65 L. Ed. 604; Commercial Trust Co. of New Jersey v. Miller, 262 U.S. 51, 43 S. Ct. 486, 67 L. Ed. 858.

"Respondent does not deny that it possessed the sum of $25,000. What it does deny is that that sum is held on behalf of, or on account of, or owing to the Japanese shipping company. However, it is well settled that in a proceeding under Section 17 of the Trading with the Enemy Act the Alien Property Custodian's determination that the property demanded is enemy property is conclusive, whether right or wrong. Central Union Trust Co. of New York v. Garvan, supra; Commercial Trust Co. of New Jersey v. Miller, supra.

"It has also been held that a debt due an enemy is property which may be seized by the Alien Property Custodian under the Trading with the Enemy Act, Kohn v. Jacob & Josef Kohn, D.C., 264 F. 253; and that the Alien Property Custodian's determination that a certain amount was a debt is conclusive for the purposes of a proceeding under Section 17 of the Act, Miller v. Rouse, D.C. 276 F. 715.

183 "My conclusion is that respondent may not, in the present proceeding, question the Alien Property Custodian's determination that the sum of $25,000 is property that was vested in him by Vesting Orders Nos. 77 and 80. If a mistake has been made by the Alien Property Custodian in his determination, respondent is not without a remedy; Section 9 of the Trading

with the Enemy Act, 50 U.S.C.A. Appendix, § 9, provides a procedure for the recovery of property which has been erroneously seized, and Section 34 of the Act, 50 U.S.C.A. Appendix, §34, provides a procedure for satisfying, out of enemy property vested by the Custodian, debts owed to American citizens by enemies."

In brief, the order or judgment entered in a summary proceeding is not res judicata of the defenses, or set-offs, claimed by the defendant. These may still be asserted in a Section 9(a) action to recover the property or money so obtained by the plaintiff. The only difference is that in the Section 9(a) action they must be asserted affirmatively, rather than defensively, to show that the Custodian had no right to the fund or property which he seized through the summary proceeding.

The situation is quite different where the plaintiff brings a regular civil action to enforce such "right, title and interest" as he may previously have acquired, by seizure, from an enemy alien. In such a proceeding the plaintiff has only the rights that the enemy alien possessed, and the defendant may assert such defenses as he may have. See Kahn v. Garvan, 263 Fed. 909, 912-913; Miller v. Rouse, 276 Fed. 715, 716; Clark v. Edmunds, 73 F. Supp. 390; Markham v. Tibbetts, 79 F. Supp. 47, Modified, Clark v. Tibbetts, 79 F. Supp. 60; Cf. The Antoinetta, 47 F. Supp. 148, aff'd. 153 F. 2d 138; Vahle v. Markham, 5 F.R.D. 315. Conversely, however, a judgment in such an action would be res judicata. Under well established rules of law, the judgment would be conclusive, between the parties, as to the claim asserted and as to any defenses which were, or might have been, interposed. See Restatement, Judgments, §47, 48.

Moreover, the plaintiff's recovery in a summary proceeding is limited to the property or money claimed in

the Turnover Directive which he is petitioning the court to enforce. In the case of a money claim, the plaintiff can obtain an Order directing the payment of the specific amount claimed in the Directive. However, the plaintiff may not recover interest. Thus in McGrath v. Manufacturer's Trust Co., 338 U.S. 241 (1949), the Supreme Court held that the plaintiff might not recover, in a summary proceeding, interest for the period between the issuance of his Turnover Directive and the entry of the District Court Order enforcing it. Similarly, it was held, even prior to the Manufacturer's Trust decision, that the plaintiff might not recover interest on the amount claimed for the period prior to the issuance of the Turnover Directive. Clark v. E. J. Lavino & Co., 175 F. 2d 897, 900. On the other hand, where the plaintiff brings an ordinary civil action to enforce a claim or property right which he has seized, he is apparently entitled to interest at the legal rate from the date the claim accrued.

185 Thus, it is essential to determine whether the case at bar is a summary proceeding, under Section 17, to enforce a Turnover Directive issued by the plaintiff, or whether it is an ordinary civil action to enforce certain contractual claims acquired by the plaintiff pursuant to a "right, title and interest" vesting order.

III.

The pleadings and briefs in the case at bar are confused, indeed a bit confusing, on the question whether plaintiff's suit is a summary proceeding to enforce a Turnover Directive, or a regular civil action.

The complaint can be read either way. It refers to both the "right, title and interest" vesting order executed on March 29, 1944 (Paragraphs 11 and 12, pp. 2-3) and to the letter, dated February 21, 1952 (Paragraph 19, p. 4) which the plaintiff has since contended constituted a Turn-

over Directive pursuant to Section 7(c). However, only a copy of the 1944 vesting order was attached to the Complaint as an exhibit. A copy of the 1952 letter was not then furnished; instead it constituted Exhibit A to the plaintiff's third brief.

The complaint, in the prayer for relief, contains a claim for interest. As shown above, such relief is possible only if the suit be regarded as an ordinary civil action rather than as a summary proceeding to enforce a Turnover Directive.

186 The Complaint also (Paragraph 3, p. 1) invoked the jurisdiction of the Court under both Section 17 of the Act, and Section 1345 of Title 28. The reference to Section 1345 was unnecessary if the case is a summary proceeding under Section 17. On the other hand, the reference to Section 17 was quite likely surplusage if the suit were an ordinary civil proceeding. Cf., Markham v. Allen, 326 U.S. 490.

The Plaintiff, as previously indicated, moved to strike the defendant's affirmative defenses. This was a reasonable step if the suit were an ordinary civil action. It was a surprisingly restrained motion if the case were actually a summary proceeding. In the latter event, the plaintiff might have moved to strike the entire answer, including the counterclaim.* Cf. Clark v. E. J. Lavino & Co., 72 F. Supp. 497.

The plaintiff's first two briefs in support of its motion to strike defendant's affirmative defenses attacked those defenses on the merits. In those briefs the plaintiff contended that the defenses in question were invalid. It was not until his third and fourth briefs that the plaintiff ad-

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* In ths connection it might be noted that the plaintiff has recently filed a reply to the defendant's counterclaims. This reply constitutes a defense on the merits. If the case at bar be viewed as a summary proceeding under Section 17, the counterclaims may not even be considered.

vanced the contention that those defenses might not be asserted in this Court since the instant suit was a 187 summary proceeding to enforce a Turnover Directive.

See pages 4-6 of plaintiff's third brief, and pages 3-5 of his fourth brief.

IV.

The Court's "Memorandum and Order" of February 10, 1956 appears to adopt the view that the case at bar is a summary proceeding. However, there are certain sentences and citations which are explicable only on the theory that the Court viewed the case as a regular civil suit.

The Court's opinion is contained in the following two paragraphs of its Memorandum:

> "The Alien Property Custodian (or his successor) is not a mere assignee for value who is seeking to enforce a contract, and therefore vulnerable to all defenses available against the alien whose property and interests have been vested. It appears that the plaintiff's predecessor did vest this fund, by the original vesting order, supplemented by later turnover demand. (In re Yokohama Specie Bank, Ltd., 1946, N.Y.S. 2d 289) which plaintiff is attempting to enforce. The defense of illegality of the transaction out of which the fund arose is not available to the defendant against the plaintiff. Kermath v. Brownell, 6th Circ., 1955, 222 F. 2d 577, 580; Standard Oil v. Clark, 2nd Circ., 1947, 163 F. 2d 917.
>
> "It further appears that the facts alleged do not bring this case within the exception set out in Sola v. Jefferson, 1942, 317 U.S. 173 (on defendant relies) to avoid the general rule that a licensee may not contest the validity of the patent in an action for royalties."

The second sentence of the first paragraph indicates that the case at bar is a summary proceeding to enforce

a Turnover Directive; and the In re Yokohama Specie
188 Bank case there cited involved such a directive. On
the other hand, the first and last sentences of the paragraph, holding that various defenses are not available to the defendant, are not so limited; and the cases cited in support of the last sentence are conflicting with regard to the nature of the action. The Kermath decision involved a summary proceeding to enforce a Turnover Directive. The Standard Oil case, however, arose out of a Section 9(a) suit to recover property previously seized by the Custodian—i.e., a type of proceeding in which the merits of the various claims and defenses of the parties might be considered.

The second paragraph constitutes a disposition on the merits, of defendant's second affirmative defense. This paragraph is pure dictum if the case at bar is a summary proceeding; for in this event the defense in question may not even be considered, much less be decided.

V.

For the foregoing reasons, the defendant respectfully petitions the Court to clarify its Memorandum and Order of February 10, 1956, so as to indicate whether the Court considers the case a summary proceeding, pursuant to
Section 17 of the Trading with the Enemy Act, to en-
189 force a Turnover Directive issued under Section 7(c)
of the Act, or whether it considers the case a regular civil suit to enforce certain civil claims acquired by the plaintiff from enemy aliens.

Respectfully submitted,
/s/ Vincent O'Brien
Vincent O'Brien
Attorney for the Defendant

Received a copy of the foregoing brief this 20th day of March, 1956.

R. Tieken
U. S. Attorney
By C. Tillotson

190

District Court Of The United States
* * (Caption—No. 55 C 263) * *

PLAINTIFF'S ANSWER TO DEFENDANT'S PETITION FOR CLARIFICATION OF THE MEMORANDUM AND ORDER OF FEBRUARY 10, 1956

(Filed Mar 30 1956)

Defendant has petitioned for clarification of this Court's Memorandum and Order of February 10, 1956, granting plaintiff's motion to strike the affirmative defenses of anti-trust illegality and patent invalidity. Defendant points to alleged ambiguities in the memorandum and order and states it is not clear whether the Court's decision striking the affirmative defenses is based on the Court's treatment of the suit merely as a summary proceeding for possession or as a "regular civil action".

Plaintiff argued in his briefs that, viewing the suit as a regular civil action, i.e., as a plenary suit, the affirmative defenses could be interposed, but were without merit and so should be stricken. Alternatively, plaintiff argued
191 that the proceeding was a summary one for possession of the royalties, in which the affirmative defenses could not be interposed at all. Defendant urged in its briefs that this was a regular civil action in which its affirmative defenses could be heard on the merits and that these defenses were valid.

The Court has now ordered that the affirmative defenses of anti-trust illegality and patent invalidity be stricken as legally insufficient. Defendant, apparently, now seeks to limit the Court's decision as holding merely that this is a purely possessory proceeding in which it would not entertain the affirmative defenses.

We think it clear that the Court's decision went much further than this. As we read the Memorandum and Order

of February 10, 1956, the Court did consider the defenses of illegality and patent invalidity and held that they were insufficient, not because it viewed this proceeding as one solely for possession, but because these defenses were untenable on the merits as a matter of law. Plainly, and as defendant concedes, there would have been no occasion for the Court to consider the impact of the Sola decision on the defense of patent invalidity if all the Court decided was that this is a possessory proceeding in which that defense was not even assertible. On the contrary, the Court squarely met and decided the issue of whether a licensee is estopped to "contest the validity of the patent in an action for royalties."

The same is true with the defense of anti-trust
192 illegality. The Court pointed out that the Alien Property Custodian was "not a mere assignee for value who is seeking to enforce a contract, and therefore vulnerable to all defenses available against the alien whose property and interests have been vested." Thus, the Court emphasized the status of the plaintiff, rather than the character of the proceedings as possessory or not. Then, after finding that the property in suit had been vested, the Court stated further, "The defense of illegality of the transaction out of which the fund arose is not available to the defendant against the plaintiff . . ." Plainly, there would be no reason for this language if the Court was merely deciding that in a summary possessory proceeding the defense of illegality was not assertible. We believe that the Court squarely met and decided the issue (which had been briefed at great length by both sides) of whether the plaintiff was entitled to royalties under a patent license agreement even though the enemy alien could not collect such royalties because the agreement was illegal for violation of the anti-trust laws.

After the seven briefs filed by both sides and the careful decision by this Court, defendant is frank to admit that

it is seeking to avoid the effect of the Court's decision as res judicata on the issues of anti-trust illegality and patent invalidity. We submit that defendant has had his day in court on these issues and that the Court has squarely decided them in favor of plaintiff on the merits.[1]

If defendant insists on clarification of the Court's 193 decision, which we believe is clear and unambiguous as it now stands, we submit the Court should make it pellucidly plain that it has dismissed the affirmative defenses on the merits.

I, Alexander O. Walter, an Assistant U. S. Attorney, hereby certify that a copy of the above and foregoing answer was mailed on March 30, 1956 to Defrees, Fiske, O'Brien and Thomson, 105 South LaSalle Street, Chicago, Illinois, Attorneys for the defendant.

/s/ Alexander O. Walter
Alexander O. Walter

194 State Of Illinois }
County Of Cook } ss.

District Court Of The United States
* * (Caption—No. 55 C 263) * *

DEFENDANT'S REPLY TO PLAINTIFF'S ANSWER TO DEFENDANT'S PETITION FOR CLARIFICATION OF THE MEMORANDUM AND ORDER OF FEBRUARY 10, 1956.

(filed Apr 18, 1956)

I.

The defendant has petitioned the Court to clarify the Memorandum and Order of February 10, 1956, so as to indicate whether the case at bar is a summary proceeding to enforce a Turnover Directive, or a regular civil action to enforce certain contract claims which the plaintiff seized in 1944.

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[1] This is so even if the Court treated the suit as possessory in nature. Kermath v. Brownell, 222 F. 2d 577 (C.A. 6).

As shown in the Petition, the differences between a summary proceeding and a regular civil action (or, to use plaintiff's term, a plenary suit) are very great. It is not a question of alternative grounds for the same relief. These differences go to the amount of any money
195 judgment which might be entered, the consequences, with regard to future litigation between the parties, of any judgment, and the issues and defenses which may be considered by the Court. A case is either a summary proceeding or a plenary suit. It cannot be both.

II.

As indicated in the Petition, a determination whether this suit is a summary proceeding or a plenary action is necessary before either side can proceed any further.

If this is a summary proceeding, the Court's decision of February 10 ends the case. In this event, the Court should strike all of the defendant's pleadings (both Answer and Counterclaims) and enter judgment for the plaintiff for the precise amount claimed ($21,377.29), without interest.

On the other hand, if this is a regular civil action (or plenary suit), the Court's decision disposes of only the affirmative defenses. In this event, there remain for disposition the Counterclaims and the negative defenses set forth in paragraphs 1 to 20 of the Answer. It would also remain for the plaintiff to establish, by evidence or affidavits, the precise amount of his claim.

III.

The plaintiff's Answer to the Petition is peculiarly unresponsive.
196 Plaintiff does not deny that he has submitted the case to the Court both as a summary proceeding and as a plenary suit. He frankly admits (Ans., pp. 1-2) his "alternative" contentions in this regard. Neither does he deny the importance and necessity of determining

the nature of this proceeding—summary action or plenary suit.

The plaintiff instead limits his Answer to a reiteration of those aspects of the Court's opinion which, in his opinion, indicate that the Court decided the merits of the affirmative defenses (Ans., pp. 2-4). In this connection he ignores the citations and language, relative to the vesting of the "fund" in dispute, which are consistent only with a conclusion that the case at bar is a summary proceeding. (Pet., pp. 9-10). Nowhere, however, does he take a position that this case is a plenary suit rather than a summary proceeding.

As we read the Answer, the plaintiff really wants the Court to consider and decide the merits of the defendant's affirmative defenses regardless of the nature of this proceeding. Of course, this cannot be done. The Court may consider the affirmative defenses only if this case is a regular civil action, or plenary suit. Those defenses are not even before the Court if this is a summary proceeding.

197

CONCLUSION

For the reasons set forth in the Petition and in this Reply, the defendant respectfully petitions the Court to clarify its Memorandum and Order of February 10, 1956 so as to indicate whether the Court considers the case a summary proceeding to enforce a Turnover Directive, or whether it considers the case a plenary suit to enforce certain contract claims heretofore seized by the plaintiff from enemy aliens.

Respectfully submitted,
/s/ Vincent O'Brien
Vincent O'Brien

Received a copy of the foregoing Brief this 18th day of April, 1956.

/s/ R. Tieken
U. S. Attorney

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IN THE UNITED STATES DISTRICT COURT
* * (Caption—No. 55 C 263) * *

SUPPLEMENTAL MEMORANDUM
(Filed Aug 2 1956)

This matter came on to be heard on defendant's petition for clarification of this Court's Memorandum and Order granting plaintiff's motion to strike defendant's affirmative defenses.

The Court has carefully considered the petition, plaintiff's answer to it, defendant's reply and the questions therein raised.

It is true, as defendant asserts, and plaintiff admits, arguments were variously raised in the numerous briefs which in turn suggested that plaintiff was bringing a summary proceeding to enforce turn over of vested property and also that plaintiff was proceeding to enforce the rights of a mere owner.

The first of these seemed predominant and the Court in deciding the motion to strike the defense that the fund sought arose out of an unenforceable agreement, considered that plaintiff here was attempting, in a summary proceeding, to enforce a turn over demand for a vested fund.

The second of the two affirmative defenses, the assertion of invalidity of the patent under which defendant was licensed, was considered to be vulnerable to a motion to strike under either theory.

Win G. Knoch
United States District Judge

Date: Aug. 2, 1956.

199

UNITED STATES DISTRICT COURT

* * (Caption—Civil Action No. 55 C 263) * *

ORDER AND JUDGMENT.

Plaintiff having brought this action against defendant to recover the sum of $21,377.29 and the Court having on February 10, 1956, pursuant to plaintiff's motion, filed its Memorandum and Order dismissing defendant's affirmative defenses, and defendant having conceded to the Court that if this is a valid summary proceeding to enforce a turnover demand for a vested fund defendant's answer and counterclaims should be stricken and plaintiff should have judgment for the amount claimed, and the Court having on August 2, 1956 filed its Supplemental Memorandum, now therefore, on motion of plaintiff, and after due deliberation, it is hereby

Ordered, Adjudged And Decreed that defendant's
200 answer and counterclaims be stricken and that defendant comply forthwith with plaintiff's Vesting Order No. 3369 and the turnover demand issued pursuant thereto by paying to plaintiff the sum of $21,377.29, without prejudice, however, to any of defendant's rights to bring suit or institute proceedings for the recovery of said sum after defendant shall have paid the same to plaintiff and without prejudice to any of plaintiff's rights to defend against such a suit or proceeding, and also without prejudice to defendant's right, if any, to appeal from said Order and from this Order and Judgment.

/s/ Win G. Knoch
United States District Judge

Dated: November 19, 1956.
RCB:ab

201 State Of Illinois }
County Of Cook } ss.

DISTRICT COURT OF THE UNITED STATES
* * (Caption—No. 55 C 263) * *

NOTICE OF APPEAL.

(Filed Jan. 18, 1957)

Notice is hereby given that La Salle Steel Co., the defendant above named, hereby appeals to the United States Court of Appeals for the Seventh Circuit from the order and judgment entered in this action on November 19, 1956.

/s/ Vincent O'Brien
Vincent O'Brien
Attorney for Appellant,
LaSalle Steel Co.

202 United States Of America }
Northern District Of Illinois } ss.

CERTIFICATE OF MAILING.

I, Roy H. Johnson, Clerk of the United States District Court for the Northern District of Illinois, do hereby certify that on January 18, 1957, in accordance with Rule 73(b) of the Federal Rules of Civil Procedure, a copy of the foregoing Notice of Appeal was mailed to:

R. Tieken
U. S. Attorney
450, U. S. Court House
Chicago, Illinois

In Testimony Whereof, I have hereunto subscribed my name and affixed the seal of the aforesaid Court at Chicago, Illinois, this 18th day of January, 1957.

Roy H. Johnson
Clerk
By Thelma Benson
Deputy Clerk

(Seal)

203 State Of Illinois }
County Of Cook } ss.

District Court Of The United States
* * (Caption—No. 55 C 263) * *

MOTION.

(Filed Jan 18 1957)

Defendant moves the Court to fix the security to be deposited by the defendant with the Clerk of this Court in lieu of a surety or sureties or its Supersedeas Bond, and to approve said Bond.

Dated: January 18, 1957.

/s/ Vincent O'Brien
Attorney for Defendant

204 State Of Illinois }
County Of Cook } ss.

District Court Of The United States
* * (Caption—No. 55 C 263) * *

ORDER.

This cause came on to be heard on the motion of the defendant to fix the security to be deposited with the Clerk of this Court in lieu of a surety or sureties on the supersedeas bond of the said defendant, and the Court being fully advised in the premises, it is

Ordered that the security to be deposited with the Clerk of this Court by the defendant, in lieu of a surety or sureties on the supersedeas bond of the said defendant, consist of United States 2½% Treasury Bonds, maturing November, 1961, in the face amount of $26,000.

/s/ Win G. Knoch
United States District Judge

Dated: January 18, 1957.

205 State Of Illinois }
County Of Cook } ss.

District Court Of The United States
* * (Caption—No. 55 C 263) * *

ORDER.

Upon motion of the La Salle Steel Co., the defendant appellant, it is ordered that the following briefs and exhibits be incorporated in the Record on Appeal:

Plaintiff's Memorandum In Support Of Motion To Strike The Defendant's Affirmative Defenses

Defendant's Memorandum In Opposition To Plaintiff's Motion To Strike Defendant's Affirmative Defenses

Plaintiff's Reply To Defendant's Memorandum On Motion To Strike Defendant's Affirmative Defenses

Defendant's Reply Memorandum In Opposition To Plaintiff's Motion To Strike Defendant's Affirmative Defenses

Plaintiff's Answer to Defendant's Reply Memorandum

Exhibit A—Letter dated February 21, 1952 to La Salle Steel Company from Harold I. Baynton, Director, Office of Alien Property

Exhibit B—Final decree—Standard Oil Company (New Jersey) et al. v. Clark, Attorney General

206 Defendant's Response To New Matter In Plaintiff's Answer To Defendant's Reply Memorandum

Plaintiff's Answer To Defendant's Response To "New Matter"

Petition Of The Defendant For Clarification Of "Memorandum and Order" Granting Plaintiff's Motion To Strike Defendant's Affirmative Defenses

Plaintiff's Answer To Defendant's Petition For Clarification Of The Memorandum and Order Of February 10, 1956

Defendant's Reply To Plaintiff's Answer To Defendant's Petition For Clarification Of The Memorandum and Order Of February 10, 1956

The above Briefs and exhibits were considered and acted upon by me in deciding the above-entitled cause.

/s/ Win G. Knoch
United States District Judge

Jan. 18, 1957

207 State Of Illinois }
County Of Cook } ss.

District Court Of The United States
* * (Caption—No. 55 C 263) * *

SUPERSEDEAS APPEAL BOND.

Know All Men By These Presents that the undersigned, La Salle Steel Co., a corporation, the defendant in the above-entitled cause, is held and firmly bound unto Herbert Brownell, Jr., Attorney General of the United States, as Successor to the Alien Property Custodian, plaintiff in said cause, in the sum of $23,978.79, to be paid to the said Herbert Brownell, Jr., Attorney General of the United States, as Successor to the Alien Property Custodian, his successors or assigns, upon the conditions hereinbelow stated, to which payment the said La Salle Steel Co. binds itself, its successors and assigns, by these presents.

Whereas, on November 19, 1956, an order and judgment was entered in the above-entitled cause in favor of the plaintiff and against the defendant in the sum of $21,377.29; and

Whereas, the said defendant has filed in the above-entitled cause a notice of appeal from said District
208 Court to the United States Court of Appeals for the Seventh Circuit from the said order and judgment; and

Whereas, the said defendant desires a stay of all proceedings in the above-entitled cause until the determination of the said appeal;

Now, Therefore, the condition of this bond is such that if the said defendant, as appellant, shall prosecute its appeal with effect and shall satisfy the said order and judgment in full together with costs, interests and damage for said delay if said appeal is dismissed or if the judgment is affirmed, and shall satisfy in full such modification of the judgment and costs, interest and damages as may be adjudged and awarded by the Court of Appeals, then this obligation to be void, otherwise this obligation to remain in full force and effect.

The said defendant, La Salle Steel Co., to secure the fulfillment by it of the obligations of this supersedeas bond, has deposited with the Clerk of said District Court, negotiable bearer bonds of the United States of the aggregate face amount of $26,000. A description of such United States bonds and an acknowledgment of the receipt thereof by the said Clerk are attached hereto as Exhibit "A".

La Salle Steel Co.
By E. J. Sorenson
Its Vice President

Attest:
A. G. Kahuska
Its Secretary

The foregoing bond, and the security therefor, is hereby approved this 18th day of January, 1957, to stand as a supersedeas until the final determination of the appeal.

/s/ Win G. Knoch
United States District Judge

Jan. 18, 1957.

209 EXHIBIT "A".

In The United States District Court
* * (Caption—No. 55 C 263) * *

Received from Continental Illinois National Bank and Trust Company of Chicago, as Agent for the La Salle Steel Company;

U. S. Treasury 2½% Bonds, dated February 15, 1954, due November 15, 1961, Numbers 152156/57 at $10,000.00; 44132 at $5,000.00; and 122754 for $1,000.00 each having May 15, 1957 and subsequent coupons attached.

totaling $26,000.00, to serve as security on supersedeas bond of Defendant Appellant in above cases No. 55 C 263. Dated January 17, 1957.

/s/ Roy H. Johnson
Clerk of the United States District Court For the Northern District of Illinois

210 United States Of America)
Northern District Of Illinois) ss.

I, Roy H. Johnson, Clerk of the United States District Court for the Northern District of Illinois, do hereby certify that the annexed and foregoing is a true and full copy of the original Supersedeas Appeal Bond filed January 18, 1957, with order approving it and Exhibit "A", attached thereto, in the cause entitled: Herbert Brownell, Jr., Attorney General of the United States, as Successor to the Alien Property Custodian, Plaintiff vs. La Salle Steel Co., a corporation, Defendant, No. 55 C 263.

now remaining among the records of the said Court in my office.

In Testimony Whereof, I have hereunto subscribed my name and affixed the seal of the aforesaid Court at Chicago, Illinois this 21st day of March, A.D. 1957.

Roy H. Johnson
Clerk.
By /s/ Gizella Butcher
Deputy Clerk.

(Seal)

211 State Of Illinois }
County Of Cook } ss.

DISTRICT COURT OF THE UNITED STATES
* * (Caption—No. 55 C 263) * *

STIPULATION.

(Filed Feb 26 1957)

It is hereby stipulated, subject to the approval of the Court, that the time within which the Appellant shall docket the action and file the record in the United States Court of Appeals for the Seventh Circuit shall be extended to and including March 27, 1957.

Dated: February 25, 1957.

/s/ R. Tieken
Attorney for Plaintiff-Appellee
/s/ Vincent O'Brien
Attorney for Defendant-Appellant

212 State Of Illinois }
County Of Cook } ss.

DISTRICT COURT OF THE UNITED STATES
* * (Caption—No. 55 C 263) * *

ORDER.

Pursuant to Stipulation filed herein, it is

Ordered, that the time within which the action shall be docketed and the record filed in the United States Court of Appeals for the Seventh Circuit shall be extended to and including March 27, 1957.

/s/ Win G. Knoch
United States District Judge

Dated: February 26, 1957.

213-217 * * *

Certificate of Clerk of United States District Court certifying the record as transmitted to the Court of Appeals.